# Economic Conditions
# Governmental Finance
# United States Securities

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NEW YORK, January, 1921.

## The World Situation.

THE second year following the Armistice did not bring the degree of industrial recovery and social recuperation among the peoples of Europe which had been hoped for. Conditions over the greater part of the continent are still in great confusion, and over much of it even more distressing than a year ago. There are, however, some signs of progress toward order and better things. The war between Poland and Russia has left deplorable results in the desolation of territory and destitution of great numbers of people, but although there are misgivings in some quarters of more hostilities on the Russian frontier, for the present peace is established in Europe, except for the trouble that Italy is having with some of her own excessively zealous patriots over the terms of her agreement with Jugo-Slavia. The consummation of this agreement between the responsible authorities of the two countries may be counted one of the important accomplishments of the year.

### Russia.

Within Russia the authorities at Moscow now have no armed or organized opposition, and may go ahead in their own way to revive the productive industries of that vast territory. If they can produce a surplus of foodstuffs and of the raw materials which western Europe needs, and deliver them at the coast or any of the country's boundaries, it is not likely that they will be seriously hampered by inability to trade them for the products of other countries. The ambitions of the Bolsheviki to convert the world to their peculiar beliefs will be best served by demonstrating the virtues of their system in practical operations at home.

### Austria and the Balkans.

Conditions in Austria are desperately bad, due fundamentally to the political severance of Vienna from the territory of which it has been the industrial and commercial, as well as political, center. The immediate problem is to get the population of Vienna through the winter.

Hungary, Roumania, Bulgaria and Jugo-Slavia are largely agricultural territory and although struggling with Treasury deficits, hard times, and insufficient supplies of many kinds, have not the more difficult problem of providing for great city populations.

### Italy.

Italy has quieted her most alarming disorders. The new Labor Board which is to be established will be for the purpose of accomplishing conciliation, but is not revolutionary in character. The Treasury is in improved condition as a result of new taxation; the revenues in October are reported as three times those of October, 1919. In the first nine months of 1920 imports decreased 576,000,000 lire and exports increased 1,762,000,000. The note circulation of the Bank of Italy on October 10 was 15,238,000,000 lire, against 14,445,000,000 a year before, and 1,556,000,000 in 1914. With the increased revenues this inflation should cease.

### Poland.

Poland has been prostrated by the struggle with Russia. The industrial and financial situation is very bad, with the currency depreciated almost to the vanishing point by the enormous issues of the past year. Although the country is normally more than self-supporting in food production, it requires importations this year, and needs help to cope with epidemics of disease both among the people and farm animals. Although united in antagonism to Russian Bolshevism the people are very much inclined to socialism, and their experiments in the state management of industries have added enormously to the confusion and distress. In a recent lecture at Warsaw Professor Globinski, an economist of standing, stated that the country had 410,000 civil officials and that including the army the burdens of government were overwhelming. He said that the state railways have five times as many employes per kilometer as the roads of western Europe. The change of the land laws at this time is not conducive to increased production.

#### Czecho-Slovakia.

In Czecho-Slovakia the Minister of Finance has recently promised that the Budget for the ensuing year will balance, although it is not altogether encouraging that the principal burdens are said to be for social and military projects. Socialism is strong here also, and the chief difficulty with which the industries have to contend at this time is the lack of coal, which is aggravated by schemes for the socialization of the coal industry. The mines were gutted during the war and require large expenditures for development, which are held up pending a determination of what shall be done with the industry. Vienna is mainly dependent on these mines and a shortage of coal is the chief drawback of all Europe.

#### Germany.

Germany is still in an unsettled and agitated state. The crops of 1920 were not good, there is need to import food and raw materials but the exports are insufficient to pay for them. The industries are not working at a rate sufficient to provide for even the needs of the German people, to say nothing of paying indemnities. The revenues of the government are far short of what is required to meet its expenditures, and the deficit is met by printing money, which demoralizes the currency and foreign exchanges and aggravates all the disorders. The railroads, all of which have been taken over by the Federal government, are running steadily behind and are a heavy burden on the public treasury. A lack of coal hampers the industries, but in this respect there has been some improvement recently—the most hopeful sign of the year.

Overshadowing every other problem in importance is the question of indemnities. Recent proceedings of the Reparation Commission have afforded ground for expectation that the amount of the indemnities will be definitely fixed, and at a sum which will encourage the German people to energetically undertake the task of payment. At present the situation in Germany is very gloomy, and it affects the entire European and world situation.

#### Belgium and France.

In Belgium and France substantial progress in industrial recovery has been made. In Belgium production was back on the whole at about pre-war volume, before the present depression came on. France has done much in rebuilding the devastated territory and in getting the crippled industries into operation. Her industrial output has increased, and the adverse balance of trade has been largely reduced. The Temps of November 22 gave the value of imports for ten months as 29,784,000,000 francs, against 27,397,000,000 in 1919, and exports as 18,890,000,000, against 7,733,000,000. France shows many evidences of progress, convincing to the world and cheering to her own people. Among them may be mentioned the payment of $150,000,000 to the United States. A new internal loan has been floated recently, to which subscriptions, including certain conversion privileges, aggregate 50,000,000,000 francs, and by the aid of this the government has been able to reduce its indebtedness to the Bank of France to such an extent that the note circulation of this institution is lower than it was a year ago. In France also production of coal is increasing.

#### Great Britain.

Great Britain has passed through a strenuous year, with grave disorders in Ireland and almost equally grave labor problems. The former are more acute at the moment, but the latter are more fundamental. The coal strike was an exceedingly threatening menace, involving as it did a challenge to the government and a covert demand for the nationalization of the coal industry. It was settled, however, with the intelligent co-operation of influential labor leaders, and this is the most reassuring sign in the British industrial situation. The representatives of British labor and British socialism who visited Russia during the year, in every noteworthy instance, reported against the adoption of the Soviet policies by British workingmen.

Despite the difficulties in industry, the revenues of the British Treasury have more than met expenditures since the beginning of the fiscal year, April 1, 1920, enabling substantial payments to be made upon indebtedness. The government has stated that by the end of the fiscal year all the war subsidies will be abolished. At the close of 1919, the government announced that the outstanding issue of exchequer currency notes, above cash reserves, would not be permitted to exceed £320,600,000 in the year 1920. This pledge has been observed, the excess on December 1 being £303,854,000, and the percentage of reserve 13.5, against 9.1 at the close of 1919. The gold stock of the Bank of England on December 1 was £124,991,291, against £91,790,369 on that date of 1919. During the eleven months to the end of November, the adverse balance in foreign trade was reduced about $600,000,000. In actual accomplishments therefore Great Britain has notably improved her situation during the past year.

## The Industrial Depression.

We have mentioned above only the countries of Europe which were involved in the war. They all suffered terrible losses in manhood and capital, and are suffering by the disorganization of their industries. The latter source of loss is due in part to the war, but

even more to the agitation which seeks to overthrow the existing social order.

The effects of this disorganization of Europe are felt throughout the world. Europe was the center of the world's industrial organization, a great market for the products of all other quarters of the globe. The equilibrium which formerly existed in the world's industries is disturbed by the inability of Europe to trade as formerly. The people need clothing, but they cannot buy cotton or wool. They need the metals, copper, lead and zinc, but cannot buy them. They would like to have meats but have not the means of payment.

The spurt of activity which followed the Armistice could not be sustained, and has been succeeded by a state of depression in all countries. A cable despatch from Geneva, Switzerland, the seat of the League of Nations, dated December 22, says:

From every part of Europe, from old countries and new, and even from Asia, reports arrive of unrest and disturbance, of commercial crises, unemployment and inability to sell products, together with the greatest need of such products.

**Lloyd George on the Situation.**

The Premier of Great Britain, Lloyd George, in a public address, recently, described the situation as follows, in part:

Now the first thing we have got to get into our minds is this: The cause is not peculiar to our country. It is something that affects the whole world. It is not an atmospheric depression that affects one degree, one coast, one country; it girdles the earth—the United States of America, Japan, China, India, France, Italy, Germany, as well as the United Kingdom. The whole world is suffering from it. Now it is important when you come to think of remedies to get that fundamental fact into your minds —(hear, hear)—so that we should not run into remedies that may be applicable to one country and not to another.

For instance, countries with totally different economic systems are suffering alike—Protectionist countries, Free Trade countries, countries with good Governments and with bad Governments—(laughter) —countries whose Governments, in the eyes of Lord Northcliffe, can do no wrong, and countries whose Governments, in his lordship's clear eye, can never do right. (Laughter.) They all suffer alike. It is raining on the just and the unjust without stint. And Socialistic countries are suffering just like those wretched individualists are suffering. The working classes are more wretched where the sun of liberty is shining upon them under the ægis of Lenine and Trotzky than they are in this benighted country, where they are locked up in the dungeons of capitalism.

I got figures from the Board of Trade this afternoon of what we sold to Europe before the war. We sold from this country, most of it our own products, but we got a profit on even what passed through—we sold 246 millions' worth of goods. At present prices, I am told, that would be about 600 millions, probably more.

Where is that trade now? Our customers are impoverished, bankrupt. I am not sure about borrowing. The printing press may save you for a time, but you cannot always carry a sack of paper on your backs. That is what is happening in Europe. They cannot get on without it, and when they buy they cannot pay. Have you ever seen the spectacle of a man in rags, down at heels, standing in front of a shop window looking at clothes and boots of the latest fashions? And you say why does he not buy, he is in rags, he needs them, why does he not go in the shop? He cannot pay.

Europe is standing in front of our shop windows, stocked with the best goods that any land can turn out. And it is in rags and wants to buy. But its pockets are full of paper. It cannot buy. And until a customer is in a condition to trade with you we must admit it. Do not let us work up pretended causes; let us get at realities. Britain has got to work its way back to a full purse, and until it does that, nothing that Governments can do, nothing that federations can do, and nothing that newspaper articles can do can help us. (Cheers.)

What are the remedies? The first is peace. Europe cannot work its way back to prosperity unless it has peace. Europe must work with both hands. (Applause.) She cannot handle the sword and the trowel. I cannot stand those men who are constantly blowing on the embers of the fire. Stamp out those who are going about with petrol-tins to start fresh fires. (Applause.)

That speech might have been made as appropriately in the United States. When the truth it sets forth is comprehended, all the people will be in better state of mind to set about repairing their fortunes. The first thing is to know that their misfortunes are not due to a conspiracy among grain speculators, or on the cotton exchange, or in Wall Street. All commodities and all markets are involved, and it cannot be supposed that commodities traded in all over the world could be sustained in price in the United States when they were falling everywhere else.

## General Business Situation.

The general business situation has exhibited during the past month the same trend that was manifest in October and November, and will have to run its course until readjustments are accomplished. It cannot stop with the industries in an unbalanced situation, part of them down to approximately a pre-war basis and part of them on the war basis. Either the former must recover the position they have lost, or the latter must come down to the new level, and the present situation is not promising for price recoveries.

Bradstreet's table of wholesale prices on December 1 was down 34.7 per cent from the top in February. Bradstreet's figures by groups, are as follows:

| Commodity | % decline from peak. |
|---|---|
| Textiles (including raw materials) | 54.2 |
| Breadstuffs | 28. |
| Live stock | 19.5 |
| Provisions | 13.8 |
| Hides and leather | 33.2 |
| Metals | 33.6 |
| Vegetable oils | 34.2 |
| Naval stores | 49.5 |
| Miscellaneous | 50.4 |

It is interesting to note how general are the declines, and that farm products are not the only ones affected. As a rule raw materials fall faster than finished goods, because the element of wages is larger in the latter, and wages decline more slowly than any other factor in prices.

Bradstreet's index of foodstuffs on December 16 showed a decline of 31.5 per cent from the corresponding week of 1919.

The declines in the principal staples have been less in recent weeks, indicating that they have about reached bottom, while other commodities are now following and coming into line with them. This is the logical and usual procedure of readjustment.

#### Results of Unsettlement.

Of course this state of unsettlement is unfavorable to industry. Retail merchants have been buying only to sort up their stocks, jobbers have run down their stocks, orders for goods have been cancelled in great numbers, and manufacturing establishments have slowed down production or shut down completely. Some of them have been running part time, and accumulating goods, to hold their organizations together and afford some earnings to their employes, but such operations are without hope of profit, and at the risk of serious losses in a time like the present, when costs are likely to be reduced in the near future. The operations of an important industry run into values very fast, and few companies are strong enough to keep up their outgo for very long unless the goods are moving and producing an income. Moreover, it would be ruinous to do so on a declining market.

It is unfortunate to have production curtailed, because the fundamental need of society is for more goods, but when industry gets out of balance and goods cannot be distributed, a temporary slowing down, during the period of readjustment, is unavoidable.

#### Causes of Industrial Reaction.

These periods of reaction come as a result of industrial derangement, or in other words, from the industrial organization getting out of balance. We have often remarked that the modern organization by which society supplies its wants is a very complicated one. It is an organization of specialists, each in his own field, doing the work he has chosen for himself, and exchanging products and services with the others. It is a wonderfully effective organization when in balance, with every branch of industry working approximately at capacity, but if anything happens to throw it out of balance it is possible to have millions of people unable to buy the products of others, because they cannot sell their own.

The war disturbed the normal situation, and for nearly a year after it broke out industry was at low ebb in this country. The winter of 1914-15 was as bad in the state of unemployment as this one threatens to be. Cotton is thought to be selling at distress prices now, but it was selling then at less than one-half present prices. The steel industry, then much below present capacity, went down to about 35 per cent of capacity, and other industries suffered in like manner.

As the war went on, industry was adapted to it, and an enormous demand for labor and products developed; credits were inflated, and wages and prices were carried so far away from normal standards that many people thought normal conditions would never return. It was hastily assumed that we had entered upon a new world in which everything was going to be radically different from what it had been in the past. We are beginning to learn that there was a great deal of error in those assumptions.

#### Buying Power Fell Behind.

During the period of advance, although there were many people whose incomes did not keep pace with the general movement, the situation remained for a time fairly well in balance, but as the advances continued, the buying power of important sections of the population, especially in other countries, fell behind. The American farmer felt it first in the lessened demand from abroad for his meats; then came the slackening demand for cotton and woolen goods in all countries, the laying off of textile workers, the heavy fall in prices of raw cotton and wool, and then the drop in grains and other commodities. The situation became so completely unbalanced that a general readjustment was necessary.

#### The Condition of Recovery.

As we have often repeated, it is fundamental in a highly organized society, where all the industries are interdependent, that there shall be a free, full circulation, or exchange, of products. The purchasing power of every branch of industry is in its own products, and since the exchanges are effected by the use of money it is necessary that the prices of all products shall rise or fall approximately together; otherwise the basis of trade will be altered, trade cannot go on, and the whole organization will be disrupted. There must be a fair and approximately stable basis of exchange. In normal times it works out that the products of the different industries exchange about on the basis of the amount of labor in them, subject to differences due to the amount of skill, training, ability, etc., required in the various occupations. There may be tendencies at work gradually modifying the basis of the exchanges without disrupting the situation, but there cannot be a sudden change in the compensation or buying power of great bodies of the population without seriously affecting all branches of industry and business.

The above describes the situation with which this country and the civilized world has to deal, for not only is there a serious disturbance

in the relations between our own industries but an abnormal situation as between this country and other countries.

**The Balance Must be Restored.**

We cannot look for a restoration of full employment and prosperity until something like the old balance between agriculture and the other industries is restored. If there was any prospect of a rise in the prices of farm products, it might be argued that the balance would be restored in that way, but there is little basis for such expectation. The prices of our farm products are dependent upon the prices at which the surplus can be sold in foreign markets. To cut down our production for the purpose of raising prices would be an attempt to sustain prices on an artificial basis, a basis of scarcity. The farmer would have less to sell, and the attempt at curtailment would check the decline in the cost of living and the downward tendency of costs in the other industries, with the result that the farmer would continue to pay high prices for everything he bought. The remedy does not lie that way, but in bringing the prices of other things down to the level of farm products. When a bushel of wheat, a bale of cotton and a pound of pork will buy as many goods in the stores as in 1919, the farmer will be able to resume his position in the trading circle; not before.

**More Than a Farmer's Problem.**

Let nobody think this is the farmer's problem, exclusively or chiefly. The merchant, the manufacturer, the wage-earner of every factory town, is directly interested in it, and has a part to perform. There will be no general resumption of business until the industries are back in balance. Manufacturers need not assure themselves that when present stocks are exhausted, orders will come and the industries will revive. There may be spurts of revival, but they will be false starts until the balance is restored. Wage-earners will be mistaken if they think that the matter of wages is wholly between themselves and their employers; the goods cannot be distributed unless prices are within reach of the great mass of the population.

The effect will be the same if the wage-earners are not fairly treated. They should not be asked to take lower money-wages unless retail prices come down, so that the reduced wages will have about the same purchasing power. The problem is to maintain stable relations between all the factors in industry. Public opinion should call upon each to do his fair part.

Everybody must get away from the idea that wages and prices are fixed by arbitrary decrees, or by agreements between employers and employes. Most of our troubles are due to these superficial assumptions. The truth is that there are great economic laws which hold society together, and fix the relations between classes and interests beyond the power of agreements or legislation to change them. The power to create confusion and to delay readjustment of course exists, but nobody is likely to gain anything by that policy.

**Every Industry Should do its Part in Readjustment.**

There are great industries, dealing with the farmers, which are taking the position that they are unable to reduce their costs and therefore cannot see their way to reduce their selling prices. If this is because they dislike to propose wage reductions to their employees, it is a mistaken view, for they cannot hope to give full employment unless they can maintain sales. The employes are entitled to know this, and probably know it already. If it is because they have large inventories of high cost supplies upon which they do not want to take losses, they are in the same position as the farmer who must sell a high-cost crop on a low-price market. It must be said to them as is said to the farmer, that it is not past costs but future costs that must govern prices now. Replacement costs are the ones to be considered. What can a new competitor in the field, who starts with a new stock, or with materials bought at the new price level, afford to do? What can each man afford to do as his part of getting industry back to settled, normal conditions?

The time has come for a new study of costs. We have suddenly come back to the old situation, where the producer does not name his price, but learns the price at which the market will take it, and sets himself to the task of supplying it at that figure and at a profit. While the terms are not as easy and agreeable as those that have been prevailing in recent years, they are more conducive to economy, good management and progress in industry.

**Prospects for Recovery.**

The answer to the question, when will recovery come, is that it will come when everybody gets ready to do his part in the readjustment. When everybody gets over thinking that he can enjoy low prices at the expense of others and high wages or high prices for himself, the situation will begin to improve. But the economic law will not be deceived or trifled with. The situation is going to mark time until there is general recognition of the fundamental condition of prosperity; industry must be brought into balance.

We would repeat that the greatest opportunity for starting industrial activity is in construction work, and particularly in housebuilding. Every city and town needs houses, but

here, as everywhere, the essential condition is faced. Costs must come down far enough to protect the investment. People will not build houses, any more than they will make goods, or grow crops, unless costs come down to a point where they believe the product will be worth what they have expended upon it. If they think houses will be cheaper to build next year than this year they will not build this year. Periods of depression last until such questions are settled. When there is a concensus of opinion that prices have fallen about as low as they will fall, and when in each industry they seem to be in line with prevailing prices in other industries, conditions are right for the forward movement. When the forward movement is started, a general advance is likely to take place as sentiment changes and demand in all lines improves, but the general decline is necessary to restore confidence.

It is important to avoid both over-confidence and undue pessimism. The country is going to recover and go ahead as in the past, but it will recover far more rapidly if everybody understands the necessary conditions.

Unemployment can be quickly overcome if the country will go ahead with the great amount of construction work that is needing to be done. We have it on the authority of the Bureau of Public Roads, Department of Agriculture, Washington, D. C., that there have been recently voted $540,000,000 of State Highway bonds and $360,000,000 of County Highway bonds in the whole country. This $900,000,000 worth of work will all be expended for labor, and will be available as soon as the bonds can be sold. The amount of railroad work needing to be done is far in excess of that. Then there is the need for house-building, the opportunity for power-development under the new Federal act, and a great variety of construction required to make good the deficit in such improvements during the war. But nobody need imagine that this work will go ahead upon the present level of costs.

**Current Business Affairs.**

Retail trade has held up very well, in view of conditions, holiday business being good. Bank payments for the week ended December 22 were less than 5 per cent below those of corresponding week last year, when the price level was higher.

Bradstreet's report of business failures shows 1,085 in November, with liabilities of $40,751,000, against 429 in that month of 1919, with liabilities of $8,566,000. Dun makes a similar report, showing largest liabilities in recent years. The number of insolvencies, however, is not surprising or alarming, in view of the great decline of values. The business community is standing the strain remarkably well. The next few weeks will be cleaning-up time, and a good many weak houses will probably have to liquidate, but it is believed that nothing of great importance will develop.

The stock market passed through another period of liquidation in December, influenced by pessimistic views of the business situation and of corporation earnings. As a general thing quotations are very low, as compared with invested values and past earning power, and at the close of the month there were evidences of investment buying. With the interest rates ruling of late, and which seem not likely to be increased, there seems to be no reason why the market should go lower. The general credit situation is discussed elsewhere.

**Situation of the Railroads.**

Railroad shares have lost practically all that they gained in the market from the passage of the Esch-Cummins act and the advance of charges. This reaction, however, seems to be in sympathy with general sentiment, and prompted by fear of declining traffic, rather than by a view of permanent conditions. Earnings are not up to the 6 per cent contemplated by the new law, but they are adversely affected by the refusal of state authorities to bring intrastate rates into line, and this will be overcome eventually by Federal authority. Important economies will be gradually accomplished, as the managers get operating expenses more fully in hand. Coal is one of the chief items of expense, and this is in the way of some reduction, while supplies generally will be cheaper with the fall of prices.

The worst thing done to the railroads by government management was the standardization and regulation of the pay of employes. All roads over the country were brought to the same rates. Wage rates in other industries are not the same over the entire country, nor are the costs of living the same. President Todd, of the Bengor & Aroostook, a local road in Maine, upon which wages corresponded with pay in other industries of that locality, stated recently that its payroll at present showed an increase of 189.72 per cent over 1914. Even worse than the standardization of rates was the placing of all railroad shops on a straight time-work basis, completing the wage-system to the government model. Of course, efficiency has fallen off, and the cost of shop work has increased until the companies are having as much of their work as possible done in private shops, and saving money by it. If any one condition is more essential than another to efficiency and progress in industry, it is that pay shall be based as closely as possible upon work done.

Since the troubles with labor have been settled the railroads have fully vindicated the action taken in returning them to the owners, having handled more traffic than in any previous period of their history.

The coal situation is rapidly improving, owing to better car service with resulting increase of production and some diminution in industrial consumption. As the available supply becomes adequate, prices of course become normal, as with everything else. Proclamations against profiteers and price regulations are of small consequence so long as there is not coal enough to go around and competitors are determined to outbid each other for the scanty supply. More words and paper have been wasted in trying to prove the contrary than on any other simple economic proposition. There is no remedy for high prices like greater production.

#### Construction Work.

Construction work of all kinds has slackened, influenced by the belief that costs will decline. The demand for lumber is very quiet, and substantial reductions have been made in wholesale prices. Reports from the South say that many mills have closed down and the remainder are running generally on half time. The only branch of the timber industry said to be active is railway ties, which are wanted for replacements. Wage rates are being lowered. The West Coast timber and lumber industry is very dull and prices have fallen off sharply. The increase of rail freight charges is making it more difficult for Pacific Coast producers to reach their eastern markets.

The hardwood markets are affected not only by falling off in construction but by dull trade prospects for automobiles, farming implements, furniture, vehicles, musical instruments, etc. Hopes have been entertained about the export trade, and from the Memphis district there is talk of the placing of a very large order (50,000,000 feet), but the exchange situation presents a serious obstacle. Prices have fallen as low as they can go without a reduction of costs, and most of the hardwood mills are closed.

The railroads have not been ordering equipment at the rate expected of them when they were granted their rate increases, but the credit situation has been unfavorable and they are indisposed to increase their capital investments at the present level of costs.

The iron and steel industry has been slackening rapidly in the last month, and war wage rates are being slashed about 20 per cent by the independent companies, although the United States Steel Corporation has made no announcement as yet.

## Credit Conditions.

Money rates have not varied much in the last month. The amount of money loaned in the call market has been very much reduced in the past year, but the amount available has met the demand of late at about 7 per cent, dropping occasionally to 6 per cent. Time money upon collateral security has been slightly easier, commercial loans about the same.

The general credit situation has changed but slightly upon the surface. The earning assets of the Federal Reserve banks aggregated $3,-333,792,000 in the first statement of the month and $3,281,039,000 on the 24th. Corresponding to the latter last year, the amount was $3,080,-495,000. The New York Reserve bank had earning assets on December 24 of $1,084,219,-769, and in the corresponding week of last year, $1,048,160,000.

Although the totals vary so little, a great shift of funds has been going on in the last six months. A very considerable amount of liquidation has been going on in the eastern territory and in the commercial centers of the whole country. Merchants have been selling down their stocks and buying only as necessary; the industries have been slowing down and avoiding the purchase of materials. But the credit released in these quarters has been transferred to the agricultural districts. The up-state banks of the New York district have reduced their borrowings of the Reserve banks, and the number of them now borrowing is much less than last May, but the New York city banks have increased their borrowings, to to be able to assist their bank correspondents of the West and South who have been hard-pressed by their farmer patrons.

#### Services of the Reserve System to Agriculture.

It is strange how persistent is the idea that the banking system has not served the wants of the farmer, although in every part of the country it has been straining itself in his behalf. We gave last month a showing of the loans of the Reserve bank of Chicago in the state of Iowa. Senator Carter Glass, formerly Secretary of the Treasury, during a discussion in the Senate on December 13, set forth the increase of re-discounts in the districts where the agricultural interests are dominant, as follows:

This talk about the drastic curtailment of credit and the contraction of credits and currency has no foundation in fact. Let us see what are the facts as opposed to the theories.

The Richmond Federal Reserve Bank, is so far extended in its credits as that it, as other banks in the agricultural regions, had to avail itself of that provision in the law which permits one Federal Reserve bank to rediscount its paper with other Federal Reserve banks. Whereas the Richmond bank had outstanding rediscounts to the extent of $99,000,000 on November 20 of last year, this year it has rediscounts amounting to $122,000,000. There is an expansion of credit to the extent of $23,000,000.

Take the St. Louis Federal Reserve bank, responding to the requirements of that other great tobacco-growing section of Kentucky, with a branch in Louisville. There has been no contraction of credits or of currency in the St. Louis district. On the 20th of November of last year its rediscounts amounted to

something like $64,000,000; on the 20th of November of this year they amounted to $134,000,000, an excess of credits over last year of $70,000,000.

Take the Atlanta bank, situated in the cotton belt, and let us see if there has been any drastic curtailment of credits or currency there. The Atlanta bank had loaned in November of last year $108,000,000; in November of this year $180,000,000, an increase of $72,000,000, or 80% in the expansion of credit.

Take the Federal Reserve Bank of Dallas, in the cotton belt. Last year it was rediscounting $44,000,000. On the 20th of November this year, it was rediscounting $104,000,000, more than 100% expansion and not one dollar of contraction.

Take the Federal Reserve Bank at Chicago, in the great cattle and grain growing region of the country. Its rediscounts last year were $234,000,000, and its rediscounts of the 20th of November of this year were $455,000,000, an increase of $221,000,000.

At Minneapolis, in the grain-growing and flour section of the country, the rediscounts advanced from $54,000,000 last year to $112,000,000 this year, an increase of over 100%, an increase of $58,000,000.

And so on, down the list. The Bank at Kansas City on November 20 of last year had rediscounts amounting to $98,000,000 and on the 20th of November of this year it had rediscounts amounting to $146,000,000, an increase of $48,000,000.

At San Francisco the rediscounts last year on November 20 were $93,000,000, and this year, on November 20 were $154,000,000. There has been no drastic curtailment of credits or of currency there.

### Loans to Farmers.

Senator Gronna, Chairman of the Senate Committee on Agriculture recently addressed a letter to Governor Harding of the Federal Reserve Board, asking for specific information as to loans to farmers. The latter replied setting forth that it was impossible, with any degree of accuracy, to distinguish among re-discounts and loans to member banks, between those which represented aid to farmers and those for other purposes. When a member bank borrows on government bonds the loan may not be for the purpose of buying the bonds; more likely it is for the purpose of making loans to its customers, and they may be farmers or of other pursuits. Governor Harding's reply, however, showed that comparing the amounts of strictly agricultural and live stock paper, as classified by the Federal Reserve Act, having more than 90 days to run, the loans rediscounted by the Federal Reserve banks in the full year 1919, aggregated $729,266,000, and for eleven months of 1920, to December 1, aggregated $1,980,063,000.

Governor Harding stated that these figures were far from showing the total loans to farmers or that were of assistance to farmers. A member bank may re-discount commercial paper and lend the proceeds direct to farmers, or it may lend to merchants, implement dealers and other business men, to enable them to carry farmers' obligations instead of forcing collections. The increase in the aggregate of loans in territory where agriculture is the chief industry, is the best indication of banking service to that interest. Even that is incomplete however, as the New York Reserve bank is not reported as having made any loans for agricultural purposes, although it has been lending heavily to the member banks of New York City, who have been thereby enabled to lend to correspondent banks in agricultural sections.

### The Shrinkage of Deposits.

One fact which is commonly overlooked in criticising the member banks for asking the reduction of loans, is the reduction of deposits that has taken place. The same reasons which have been prompting people to borrow of late have also caused them to draw down their deposits. They have current bills to pay, and must sell something, check against money in bank, or borrow. Some of the leading agricultural states apparently have not been selling products enough to pay for their current purchases outside. As a result the banks have been steadily losing deposits, which of course curtails their lending power, and to avoid forcing the collection of their loans they have been borrowing of the Reserve banks and correspondent banks outside.

The lending power of a bank is mainly in its deposits. Nobody would expect a bank of $500,000 deposits to lend as much as a bank of $1,000,000 deposits, but there are hundreds of banks that have lost from 25 to 50 per cent of their deposits in the last six months, and people think they ought to lend as much money as before.

### The Proper Function of a Bank.

A bank of itself does not create wealth. It is not an industry; it does not carry on production, and it cannot of itself supply wealth to the community. It is a receptacle, a reservoir of the floating, liquid, wealth of the community. Its function is to aid production and trade by making this floating wealth more available and more useful than it could be without being gathered together. It is an agency for the more efficient use and handling of the community's wealth, but not for making wealth by any magical method, such as the printing press affords, or by creating deposits through loans. It is important to keep this in mind, because whenever people begin to complain that the banks or the government should make money easy it is time to utter a warning.

Sound banking requires that somebody shall put a dollar of wealth into the bank for every dollar that the bank loans out, and when we speak of wealth we include the paper representatives of the liquid wealth which is moving in trade. The wheat, meats, cotton, lumber, coal, and merchandise of all kinds that are being transferred are creating and depleting bank deposits as they move. It is through them that pools of deposits or lending power, are created. When prices rise the deposits are increased and as prices fall they are decreased. These funds are the basis of the banking business. Deposits that arise in this way represent

real values which may be loaned and shifted about with safety. Remember all the time that if you want the banking business to be kept on a safe basis it must confine itself to funds of this character, received from the public. Whenever the banks begin to create deposits, or money, by manufacturing credit, they are dealing in something unsubstantial, fictitious, and charged with possibilities of mischief.

### Function of the Reserve System.

Now, bearing in mind the sound rule of banking, that a bank shall deal only with the funds deposited in its keeping, it is evident that while one bank may be fully loaned up, another may have a surplus, and the first bank may borrow temporarily of the second. The situation is no different from what it would be if the two banks were consolidated. This principle is the basis of our reserve system. A greater degree of flexibility is given to the banking system, by the consolidation of reserves, and the service to the public is better. But it never was intended that the reserve system would violate the fundamental principle of banking, that the public itself should supply the loanable funds. The reserve banks were intended to do for all the member banks what each of the latter banks do for the community in which it is located.

Under the old system, where each bank stood alone, a run on one for cash might easily close it, and thus spread a panic. The reserve bank was intended to serve as a protection against panics in the same way that a reservoir of water serves as better protection for a town against fire than a cistern in each house.

In addition to being simply a depository, however, the reserve bank is authorized to issue currency. This was not intended as an independent means of creating credit, but for the purpose of giving greater facility in handling deposit. There is no fundamental difference, from the standpoint of a bank, between a deposit-liability and a note-liability, and the note-issuing power provides a means by which deposits can be converted into currency. It is a means of protection to the banks.

### Limited Powers of Banking.

When it is understood that the banks are properly restricted in their loans to the amount of liquid credits which the public deposits with them, vague criticism because they do not supply credit indefinitely will cease. The banks in one section can be helped out by banks elsewhere who have a surplus, but they cannot manufacture credit without entering upon dangerous policies, nor should the funds so advanced be tied up in such manner that they cannot be recalled for use in handling the current trade where they belong. A banker of an important Western market city, who had made loans freely to local bankers in neighboring territory, recently sent out a letter asking that the loans be repaid in part, as they were needed in carrying on the industries and commerce of that city, which in turn was an essential factor in marketing the crops of the territory. This letter was criticised as a revelation of hostility toward the country districts, and favoritism toward the city industries, a construction wholly unjustified. A banker is under obligations to the customers who provide the funds in his custody, and to make the most equitable and helpful distribution in his power, but it is a mistake to suppose that he has the power to grant credit at will. He can dispose of what the community puts in his hands, so long as the owners leave it with him, and he may to some extent borrow for them, but there his power ends. Each community in the long run, and for the larger part, must supply its own banking funds by means of its production and savings. It cannot expect to withhold its products from market for an indefinite time and go on buying things by means of outside help.

### Slow Liquidation.

The situation does not indicate easy money in the near future. The amount of bank credit outstanding is very large, and with low prices for products it will be necessarily slow of retirement. The country will have to adjust itself to the fact that during the period of booming times a great amount of credit was tied up, and that many banks will be in a somewhat unliquid condition for a long time. It would be a dangerous position but for the Federal Reserve banks, but the real wealth and recuperative powers of the country are so great that the frozen credits are not great relatively, and will be only a matter of temporary embarrassment. They do signify, however, that a great many people will curtail their expenditures in order to pay this indebtedness, and that trade will be more or less affected while the process is going on. We have entered upon an economizing, cleaning-up, period. Interest rates are not going to decline much until the member banks are well out of the Reserve banks, and rumors that the latter are about to reduce their interest may be put down as highly improbable.

## Agricultural Conditions.

The government's December report on the cotton crop raised the estimate to 12,987,000 bales, and the actual ginnings to December 1 were 10,144,921 bales.

The 1919 crop was 11,420,763 bales. These figures are without linters, which are a product obtained from the seed by the crushing mills.

Mr. Hester, Secretary of the New Orleans Cotton Exchange, estimates the carry-over on August 1, 1920, at 5,086,000 bales.

The government's estimate was higher than expected and influenced prices unfavorably, the decline during the month being about 2 cents per pound. The principal cause has been the low state of the cotton goods trade over the world. The Lancashire mills operating on cotton have been running only 24 hours per week during December, and the situation on the continent has been no better. The Bureau of Markets, Department of Agriculture, reports the result of an inquiry into the cotton goods industry in Germany, the result of which was not very encouraging. Pre-war consumption of cotton was about 1,800,000 bales, and loss of Alsace-Lorraine reduces capacity about 13 per cent. This, of course, does not signify an actual reduction of demand. The industry now works 8 hours instead of 10, and the maximum capacity is estimated at 1,200,000 bales. The purchasing power of the home market is low, export business has not been recovered, there is a shortage of fuel, and "it is not safe to estimate that, even with American credits, the maximum consumption can be over 700,000 bales."

### Move to Curtail Acreage.

The movement for a curtailment of acreage for the next crop is being pressed actively, even to the extent of calling upon bankers to withhold credit from farmers who refuse to cut their planting by 50 per cent. If the cost of growing the cotton crop does not decline to correspond with the price the acreage no doubt will be naturally reduced, without any such arbitrary measures. No doubt costs will decline, and the entire business community should interest itself in having them reduced. It is to be considered that most of the carry-over in years since 1914 has been due to the 16,000,000 bale crop of that year, and that since then production and consumption have been fairly well balanced, notwithstanding the isolation of central and eastern Europe. A considerable portion of the carry-over is of poor quality. Finally, the great variation in yield is illustrated by the crop of this year, which in June was not expected to make over 10,000,000 bales. If the acreage should be halved and the crop be light, supplies would be inadequate, and the consuming public is not going to be in position to pay extremely high prices. It will go without in preference. One of these years the demand is going to come back, and the people who are ready to supply it will be well rewarded.

The wool markets of the world are stagnant, and the auctions both of wool and woolen goods during the month have realized lower prices. A purchase of between two and three million pounds is said to have been made by a large worsted mill at 35 to 45 cents, for quarter to three-eighths blood, clean basis. A line of South Americans is reported sold at 20 to 21 cents in grease, which would have brought 60 cents a year ago. A curious divergence of policy within the British empire is exhibited by the fact that while the Prime Minister of Australia has declared that even in their need of markets they will not sell wool to Germany, while the government of the Union of South Africa has sent a commissioner to Germany to negotiate for the sale or exchange of wool.

### Grains, Live Stock and Dairy Products.

The market for all the grains has held its own or improved a little during the month. Wheat has fluctuated nervously with the reports of export purchases and of sales by Argentina and Australia, but has risen from the low, about $1.52 for December in Chicago, to around $1.70. Receipts in primary markets, particularly the Southwest, are approaching more nearly to normal, but cash wheat has commanded liberal premiums. The Chicago report of December 24 said:

> No. 2 red on track here sold today at 38 cents over the December, an advance of 3 cents over the previous day's nominal finish, and the best premium on the crop.

The December delivery on the same day was 10 cents over May, which shows a continued reluctance to own wheat toward the end of the crop year.

Bradstreet's report of exports of wheat, including flour, from the United States and Canada from July 1 to December 16 was 229,456,372 bushels. For the months, July to October, the exports of wheat and flour from the United States alone were of the aggregate value of $409,393,332, against $194,115,327 in the corresponding months of 1919.

The total amount of wheat available for export from the United States and Canada for this crop year has been estimated at about 400,000,000 bushels, but the greater part of what has gone has been from the United States. It is about six months until new wheat becomes available. So long as there is free movement of wheat between the two countries the combined stock is a common supply, but if we should sell more than we can spare, and a duty should be placed on importations, of course prices in this country would be violently affected. This is the possible joker in the situation, as some people think that a large share of our remaining stock is already sold for export.

Live stock has been marketed heavily and values have given way further during the past month. Hogs have reached the lowest figure since the spring of 1916, selling in Western markets between $9 and $10. This market improved a little in the last half of the month.

Cattle were in lighter supply, but the offerings were common, and the bulk have been going at $8 to $11 per cwt. Sheep market has been erratic, and at prices of 1916.

Butter is about 20 cents per pound lower than a year ago, and storage supplies are coming out at a loss to holders of about 10 cents per pound. Eggs have made a profit, but owing to the mild weather of December have declined in value. Supplies in storage are light and prices may go higher.

#### Remedies for Low Prices.

The Congress came together at Washington with a very keen appreciation of the losses suffered by the farmer, and a desire to do something forthwith for his relief. This spirit is praiseworthy, but there is always danger that action taken under the spur of seeming necessity may be injurious rather than helpful.

The proposal to impose new tariff duties upon a list of farm products apparently has not been studied in all effects. The advocates seem to have thought no farther than that as a matter of course it was not desirable to have any farm products brought into this country, without regard to our general trade relations with other countries. Canada would be the country probably most affected by such action and we have referred to the Canadian situation before. In the first ten months of 1920 our total imports from Canada amounted to $489,187,000, and in this was a considerable amount of agricultural products, notably wheat and cattle. Upon these the legislators' eyes are fixed, to the exclusion of the $841,193,000 of exports from this country to Canada in the same time. Is it sensible to consider the $489,000,000 of imports without thinking of the $841,000,000 of exports? The exports are largely factory products, probably representing more labor, dollar for dollar, than the imports, and that labor consumes agricultural products. There is a general interest in keeping that labor employed at the present time.

Furthermore, we are exporters of wheat and meat products. The Canadian wheat and cattle that come into this country practically go through it to foreign markets, affording some business to our railroads, flour mills and packing houses, en route. If we close these routes they will reach the foreign markets, nevertheless, and affect prices there and here practically as they do now.

#### Effect Upon Exchange Rates.

Our exports to Canada doubtless would be larger than they are but for the adverse exchange rates, which have been adding 10 or 12 per cent to the cost of our goods to Canadian buyers, and these rates have been due to the one-sided state of trade. It is difficult for Canadians to find the means of making payments in the United States. Excluding their agricultural products will make it more difficult and since the matter has been agitated, and probably as a result of the agitation, exchange rates on points in the United States have risen in Canada to a premium of 16 to 18 per cent.

That we have a right to impose any import duties we please is true, of course, but there seem to be the strongest reasons for believing that our own interests will be served best by intimate trade relations with Canada. Making prohibitory duties is a game that two can play at, but in which neither is likely to make any profit.

We have a promising trade developing with Argentina, but already the news of this proposed action has stimulated a demand there for retaliatory measures. Exchange rates have been against Argentina also, to the extent of 20 to 30 per cent, and this proposal would have the effect of increasing them. Argentina cannot buy of the United States unless she can pay in her own products.

Italy is wanting to buy cotton in the United States, but the lire, which in normal times exchanges for the dollar on the basis of 19.3 cents, is now worth only about 3½ cents, making purchases almost out of the question. One of the Italian products which may be used to create credits here is lemons, but this bill proposes to raise an obstacle to lemons.

Denmark has been sending some butter to this market, probably a temporary movement, but it is buying corn and other feed, flour, and cotton, and is also at a disadvantage because buying much more from us than it is selling to us, and paying high exchange rates. It cannot buy of us unless it can use its products in payment.

Australia is sending some wool here, but last month we gave facts showing that the balance of trade in our favor is so large that it has almost brought trade to a standstill.

It is safe to say that every feature of the measure intended to help one domestic industry would injure some other, and that in most cases some branch of agriculture would suffer directly.

Is it worth while to be setting up tariffs that injure and irritate other peoples, and provoke reprisals against our products, when we are selling so much more than we are buying? Are not our exports as well as our imports a subject of interest?

Is there not more to be gained by stability of trade relations than by spasmodic efforts to alter conditions in our favor? Trade relations and industry are demoralized at best, and the confusion is likely to be made worse if all nations create disturbing conditions.. When a horse gets down in the harness, the common

practice is to free him and let him find his feet in his own way. Trade and industry the world over are closely related, and they will find an equilibrium and a general state of prosperity sooner by being let alone than by efforts to tie up its various parts and prevent natural co-operation.

#### War Finance Corporation, Loans, Etc.

The various proposals for government aid are all open to the objection that the Treasury is in a very decrepit condition in dealing with its own necessities. It is obliged to come into the money market every few months as a borrower, for means to take care of its own maturing obligations, which makes it little less than a joke to talk about it as a resource for other worthy purposes. Here, for instance is the suggestion that the profits accruing to the Treasury from the Federal Reserve banks be set apart as a fund for loans to cattle-raisers. Perhaps something more ought to be done for the cattle-growing industry, which assuredly is important to the country, but just how are the profits of the reserve banks to be rescued from the Treasury deficit? It is a good deal like trying to collect an income tax from a man who has had $100,000 of income from one source and lost $200,000 elsewhere.

It may be well to revive the War Finance Corporation; of all plans proposed this has the greatest possibility of results. Not much was done with it when it was functioning, because the law required that paper should come to it with the endorsement of a bank, and commercial banks could not properly tie themselves up in long-time liabilities. The Edge act banks might find it helpful.

Long ago, in the discussions of last year, we expressed the opinion that the European situation was too big for small means or agencies to deal with; in other words that it required a comprehensive plan and a co-ordination of effort that hardly could be obtained without governmental co-operation of some kind. The Financial Conference at Brussels laid down certain rules which should be made the basis of international credits, and the League of Nations has taken action looking to co-operation along the same lines. Countries wishing to borrow should put their houses financially in order, providing by taxation for current expenses, supervising the expenditure of funds provided by loans, etc. It might be that the War Finance Corporation could serve a useful purpose as representing this country in well ordered arrangements with foreign countries. Perhaps its securities would command the most favorable market in this country. But in all considerations of the subject it should be kept in mind that whatever credits are granted must be provided by appealing to the public market. The Government has no funds and the War Finance Corporation has no funds, and the banks have no funds, except as they get them from the public.

#### The Farmer's Position.

The farmer has had a hard jolt, and it is no wonder if he has been somewhat disturbed. He worked hard for a good crop, did his part faithfully, and then saw the value of it largely disappear before he could get it to market. It seemed to him that he was getting the worst of it, and as he has thought it over he has been inclined to think that he always has had the worst of it. His attitude has been a little belligerent in spots, but not seriously so. Everybody is entitled to a little latitude of expression under such conditions, and the farmer has not abused the privilege. Riotous actions and extravagant utterances are not chargeable to the great body of farmers. The latter are studying the situation with a view to constructive policies, but they are going on with the work of growing crops. Cotton growers are planning to curtail the acreage, and no doubt it will be done to some extent, but any plan for general curtailment of crops raises the question of what a farmer will do with his land and how he will make a living. The investment is too great to stand idle. Of course he will set himself rigorously to reduce the cost of the next crop. With the conditions likely to prevail in the industrial centers, much of the labor which has left the farms in recent years probably will be going back, and perhaps more with it, and at terms within the farmer's reach. The natural law always has a way of restoring the equilibrium when it has been disturbed, and the people who have been worrying about the movement of labor to the cities may take comfort in the demonstration that things do not run one way all the time. Nature's ways are a little abrupt and inconsiderate at times, but she will not be denied.

#### Nobody Has a Monopoly of Trouble.

When the farmer is disposed to think that his own lot is the worst of all, he will do well to note that the people of every occupation are in the habit of claiming that distinction. They all have a very keen sense of their troubles. Fathers as a rule say that they do not want their sons to follow in their trade or line of business—almost anything else will be preferable.

The farmer gets so much bad advice and misinformation that it would be strange if he did not ocasionally get erroneous ideas; for instance, the theory that everybody but the farmer can fix the price of his product; that it is simply cost, plus what the traffic will bear. Of course that theory is not within speaking

distance of the facts in ordinary times. The great body of business men are in a constant struggle to make ends meet—harassed and perplexed by uncertainties—and many fail of success.

We have seen recently an editorial comparing agriculture with the oil industry, to show how much more certain and stable were the returns of the latter than the former—and it was not an attempt at satire! If any thing has been typical of risky adventures it has been the oil industry. As in gold mining, there have been enough lucky strikes to keep thousands working and investing without returns. Nor have the prices of oil been stabilized. It is only five or six years since the developments in Oklahoma nearly swamped the industry. The phenomenal development of the internal combustion engine and of the use of oil as fuel, with high prices for coal, have kept demand up to supply in the last few years.

The steel industry has been cited also as an example of one stabilized upon a basis of certain profits. But the steel industry has been notoriously a prince or a pauper, and the present price of steel stocks indicates that it is not expected to have a different career in the future. Even if prices are stabilized, which except within limits is a doubtful policy, it does not signify that profits are stabilized, although a prudent management may withhold from distribution in good times in order to continue dividends in bad times. The best class of farmers accumulate enough fat in good years to go through the bad ones comfortably.

#### Farmer Not the Only Loser.

If the farmer will take a look over security prices he will disabuse his mind of the idea that he alone has taken losses from this reaction, or that Wall Street is the gainer by it. The shrinkage of values suffered by rich men runs into hundreds of millions of dollars, and they are not mere paper losses, but for a great part losses that have been taken under forced sales.

Below we give a list taken in alphabetical order from the market report, of some of the leading corporations of this country in various lines, with the price of their stocks at the highest point in 1920 and the lowest on December 28. The list might be extended to include nearly all the stocks for which quotations are available, and the showing would be similar. Wherever these stocks have been in use as collateral for loans at anything like their former value of course loans have had to be reduced or more security supplied:

| | High 1920 | Low Dec. 28 |
|---|---|---|
| Allis-Chalmers Mfg. | 53⅞ | 27½ |
| American Beet Sugar | 103¾ | 37¼ |
| American Can | 61¾ | 22⅜ |
| American Cotton Oil | 54⅝ | 16 |
| American Express | 175 | 120 |
| American Linseed | 95 | 44⅝ |
| American Smelting and Refining | 72 | 29¼ |
| American Sugar Refining | 142⅝ | 88¾ |
| American Tobacco | 283 | 108⅝ |
| American Woolen | 165½ | 55½ |
| Anaconda Copper | 66¼ | 30½ |
| Associated Dry Goods | 67¼ | 18⅝ |
| Atlantic Gulf and W. I. steamship | 176½ | 93¼ |
| Baldwin Locomotive | 148⅜ | 80⅜ |
| Bethlehem Steel | 96⅞ | 50¾ |
| Central Leather | 104¾ | 31¾ |
| Chandler Motor | 164¾ | 59⅜ |
| Chicago, Mil. & St. Paul R. R. | 44⅜ | 25⅛ |
| Cuba Cane Sugar | 59⅜ | 17⅞ |
| Endicott-Johnson Shoe Company | 147 | 48 |
| Fisk Rubber | 48 | 10⅛ |
| General Electric | 172 | 117¼ |
| General Motors | 42 | 13⅜ |
| Houston Oil | 116½ | 60¼ |
| International Mercantile Marine | 51⅞ | 11 |
| International Paper | 91¾ | 43 |
| Kelly-Springfield Tire | 152½ | 31 |
| Lackawanna Steel | 91¾ | 48⅛ |
| Loose-Wiles Biscuit | 70 | 25 |
| Maxwell Motors | 38 | 2⅛ |
| Mexican Petroleum | 222 | 152½ |
| National Enameling & Stamping | 89½ | 45¼ |
| N. Y. New Haven & Hartford R.R | 37¼ | 16¼ |
| Punta Alegre Sugar | 120 | 43½ |
| Republic Iron & Steel | 124¾ | 57⅝ |
| Sinclair Consolidated Oil | 48¾ | 21 |
| U. S. Rubber | 143¾ | 55 |
| U. S. Steel | 109 | 77⅛ |
| Virginia-Carolina Chemical | 80¼ | 31⅛ |
| Worthington Pump | 95¼ | 40 |

In the list of stocks which have suffered will be found all the corporations which have figured in the sensational stories about great corporation profits during the war. Those profits were not divided to any important extent. They were used for the most part to enlarge the industries, increasing productive capacity, but the market prices of the stocks indicate that there are no sanguine expectations of large profits from these investments in the near future.

#### Stabilizing Profits.

The idea that the profits in business may be stabilized was entertained by the Government's price-fixing officials. They assigned to the wholesale grocer a profit of one cent a pound on sugar, which answered the purpose very well as long as prices were rising, but when the price movement turned downward and the price dropped 15 cents per pound and more without recovery the grocers took a staggering loss, for which no provision had been made.

One of the leading meat packers was indicted recently for selling lamb carcasses brought from Australia at prices which on certain individual transactions were said to be in excess of the margin fixed by the authorities. His attorney, Mr. Charles Evans Hughes, in defence pointed out that the packers were allowed a certain average profit upon their business throughout the year, that in dealing with fluctuating values losses from time to time were inevitable, and that they must take advantage of favorable circumstances to make good their losses in order to obtain the average profits.

No business can be conducted successfully without provision for losses, according to the risks that must be carried.

The butter which was put into storage last spring and summer to supply the trade in the fall and winter months is coming on the market now at the rate of about 500,000 pounds per day, and at a loss to the holders of approximately 10 cents per pound. The storage "speculators" if they may be so called, hold the butter at a cost, including insurance and storage charges of not less than 55 cents per pound, New York basis, and it is being sold at 40 to 45 cents per pound, and the losses will aggregate millions of dollars unless the market changes, which is not in prospect. This is occurring in the midst of a nation-wide agitation based upon the assumption that the farmer is constantly exploited by the dealer, and that the latter simply adds a sure profit to the prices he pays for farm products.

In eggs the dealers have fared better this year, the storage having been light. The New York State Bureau of Food and Markets has recently issued a bulletin on egg marketing, which embodies the results of a study by the State Agricultural College of the costs and profits of storing eggs over a period of years from which we make the following quotation:

> A comparison shows that in the years 1910, 1912, 1915 and 1917 the average gross profit was less than the cost of storage: in other words, the persons who stored eggs in these years, taken on the average, lost money on the eggs which they held. During the other years the gross profit of the dealers was more than enough to pay storage charges.
>
> The average net profit made in storing eggs, year in and year out, is not at all excessive, as is so often supposed. During the period between 1907 and 1914, for example, it was only a fraction of one cent per dozen. During the period between 1914 and 1917 it was a little above one cent per dozen.
>
> It is obvious from the data that the business of storing eggs is an extremely hazardous one from a financial point of view. The shrewd dealer who stored eggs in the years 1908, 1911, 1913 and 1916 undoubtedly made very handsome profits. If he was unfortunate enough to store eggs only during the other years he made no money at all, but instead lost heavily. The average dealer, of course, probably had some eggs in storage during all these years, so that in the long run he was able to balance the losses during the bad years by those in the more profitable ones.

A bill is now pending in Congress which proposes that commodities when placed in storage shall have the date marked upon them and the market price at the time, with the purpose of preventing undue profits. Of course this scheme is based upon the same erroneous theory that profits are arbitrarily fixed by the dealer, and may be standardized. But who knows how much profit a dealer should have upon eggs in any given year to make a fair average over a term of years, and if nobody knows why attempt to regulate it? The evidence furnished by the New York State Agricultural College shows that in the years from 1907 to 1917, when the dealer was allowed to make all he could, he got none too much.

The farmer is well within his rights in efforts to improve the marketing system, and should receive encouragement and support in practical measures for that purpose, but nothing will be gained by proceeding from false premises.

### Sugar Importations.

There has been no better illustration of the operations of the law of supply and demand than that supplied by the sugar market in 1920.

Statistics now available show that for the ten months ending with November the receipts of sugar from foreign countries and the Philippines amounted to roundly 3,500,000 tons (of 2,000 pounds each) as compared with 2,912,000 tons in the corresponding period of 1919 and 2,235,000 tons in the same months of 1918. Deducting exports in each case, we have net receipts of over 3,000,000 tons for the first ten months of 1920 against 2,347,000 tons in 1919 and 2,136,000 tons in 1918. In other words the supply has been 835,000 tons greater than for the first three-quarters of 1919 and over 1,000,000 tons more than in 1918. This is an amount sufficient to supply 16 pounds per capita more than in 1919 and 20 pounds more than in 1918.

Was there no reason for the rise of prices during the forepart of the year? Yes, there was. The supply of sugar for this country in the past has come entirely from our own production and that of Cuba, and supplies from both of these sources were known to be short, and did in fact fall off. The world supply was short, and it was not supposed that we could draw from other fields. Of course, with a proper regard for the needs of the world, we should have reduced our consumption; that is the only way to keep down prices when supplies are short, but the American people had little notion of doing that. It was often said as evidence of no shortage that plenty of sugar was to be had by those willing to pay the price; but the rising price caused somebody to go without. They were bound to have sugar regardless of the shortage, and a great rise resulted. The lure of these prices was sufficient to attract sugar from every part of the globe. Countries in which a serious undersupply of sugar existed depleted their meagre stocks in order to share in the golden harvest offered by the United States. Countries that previously had imported refined sugar from the United States returned it at a handsome profit. Practically every country that had any quantity of sugar available apparently started it on its way to New York, New Orleans or San Francisco. The apparent

willingness of American consumers to pay fancy prices threatened to drain the entire world of sugar. It would have had this effect if the price levels of late spring and early summer had been maintained.

Refined sugars which had been sold to Belgium, France and other European countries at nine cents a pound were returned to the western side of the Atlantic and sold at double the original price. Java sugars were diverted from their course toward European and eastern markets to American ports. Mexico, Central and South America, and even far off Mauritius and British South Africa, sold sugar in New York. Until this excess supply can be absorbed congestion, stagnation and low prices must continue to rule the sugar market.

It is worth while to note one unexpected effect of the government's regulation of dealer's profits. It disturbed the balance between the buying and selling forces in trade. The dealers no longer had anything to gain by trying to buy cheap, as they had a fixed profit per pound. Their sole interest seemed to be in volume of business. Their restraining influence upon producers' prices was lost, and the market went practically into the hands of the Cuban producers, until old world sugar was attracted by the phenomenal prices. The situation illustrates how governmental interference frequently has unexpected results.

A further result of the limitation of profits, as seen in the case of the refiners was that some refiners ceased to buy raw sugar and did the refining for Cuban producers under toll contracts, the producers putting the refined sugar on the market.

## Cancellations.

Violent price fluctuations always put traders to a severe test and many unpleasant revelations about people of previous high standing have been made by themselves in recent weeks. And on the other hand the man who "will stand without hitching," and whose "word is as good as his bond," stands out more honored and respected than ever.

The whole industrial situation has suffered a much more intense degree of demoralization as a result of the epidemic of cancellations. The decline of prices has been more precipitate, the cessation of industry has been more abrupt, the alarm and shock have been greater, and the ill effects have been intensified, with greater losses all around. There has been little warning for anybody, for the most prudent business methods avail nothing where there is widespread repudiation of obligations.

In the long run everybody is interested in maintaining honest and fair business practices. The modern business organization is very complex and of necessity its daily transactions are largely based upon good faith. It is impracticable to have all the common transactions of purchase and sale under the formality of legal contracts, but the whole business structure is dependent upon regularity in methods and upon a general observance of obligations, as all parties to them intend when they are entered upon. There can be no security in business otherwise, and the persons who disregard their obigations in a time of crisis are contributing to a general state of disorder which may cost them greater losses than the ones they are trying to escape.

### Contracts Should Be Lived Up To.

The question of whether the holder of a contract, made in good faith, shall insist upon its performance is more than a matter of self-interest. The holder, who, weakly or from motives of policy, fails to stand for a sound principle when general demoralization of business morale is threatened, contributes to that demoralization almost as much as the offenders. Honorable standards in business life will not be maintained unless somebody fights for them.

In a situation of this kind personal influence and the power of example go a great way. If one man flinches, another will, soon it is reported that everybody does, and then it seems unfair that any one should be expected to make his word good. Custom makes standards of conduct. A delinquency of one kind provokes others, as in the case of reprisals in war. It is said that when goods were advancing orders on contracts sometimes had to wait while goods were sold at higher prices. Such practices are dishonorable, but the remedy is not in other acts tending to lower the standards, and increase the demoralization.

American exporters complain that foreign buyers in some cases are not living up to their obligations, but the charges are not all on one side. These are times when men are making reputations that will stay with them as long as they live and their houses after them, and which involve the good name of the country to which they belong. The possible gains of doubtful practices are not much compared with all that is involved. The right course is the one which if followed generally will give stability to business and protect the honest trader.

## The Bond Market.

Although the December liquidation in the security market has resulted in a lower price level than existed a month ago, there apparently has been no tendency to sacrifice sound bonds. In view of a necessarily small buying power at this time, bonds have offered strong resistance to a general selling pressure.

The par amount of bond transactions on the New York Exchange so far this month is far below that of a year ago and consists largely of dealings in Liberty Bonds. Private investors and institutions are loath to dispose of conservative investments at existing prices.

The last tax instalment, which was due December 15th, undoubtedly hastened liquidation in some quarters. The chief sufferers from this cause probably were the various Liberty issues. However, the buying for the 2½ per cent sinking fund and a good investment demand have resulted in brisk rallies in the Liberty market from time to time.

The Treasury Department announced a new issue of $500,000,000 (or thereabouts) United States Certificates of Indebtedness, dated December 15, 1920. One-half of these Certificates mature June 15, 1921 and bear interest at the rate of 5¾ per cent, while the balance mature December 15, 1921 and bear interest at 6 per cent. This issue was for the purpose of refunding a portion of the $703,000,000 4¾ per cent Certificates which matured December 15. The Secretary of the Treasury reported total subscription to this offering of $790.449,050 of which $412,866,000 came from the New York district alone. The latter's participation was cut down to something like $266,907,000.

#### December Offerings.

New offerings have not been as numerous as in recent months. Wide interest was manifested in the financing of two Standard Oil Companies as follows:

$25,000,000 Standard Oil Company (California) 10 year 7% Gold Debentures, at 100 and interest.
$30,000,000 Standard Oil Company (New York) 7% Serial Gold Debentures, due January 2, 1925 to 1930, price 100 and interest.

These issues which were offered within a day of each other were very rapidy absorbed. Other important industrial financing during the month included

$12,500,000 Virginia-Carolina Chemical Company 12 year 7½% Debentures, at 96¼ and interest, to yield about 8%.
$4,000,000 Fleischman Company, New York, 8% 10 year Gold Notes, at 100 and interest.
$8,000,000 Cerro de Paseo Copper Corporation 10 year Convertible 8% Bonds, at 100 and interest.

The municipal bond market has changed but little during the month. Prices are firm and the demand is fair. Among the more important new issues were

$10,000,000 Province of Ontario 15 year 6% Bonds, price 94.34 and interest, to yield 6.60%.
$2,980,000 City of Minneapolis, Minn. 5% Serial Bonds, at prices to yield from 5.75% to 5%.
$7,000,000 City of Philadelphia 50 year 5% Bonds, price 102 and interest, to yield about 4.88%.
$3,465,000 City of Pittsburgh Serial 5% Bonds, at prices to yield about 4.80%.
$847,000 City of Jersey City, N. J. Serial 5½% Bonds, at prices to yield from 5.75% to 5.05%.

Public utility financing included

$10,000,000 Pacific Gas and Electric Company 1st and Rfg. 20 year 7% Bonds, at 99 and interest, to yield about 7.10%.
$25,000,000 Consolidated Gas Company of New York 1 year 8% Notes, at 100 and interest.
$5,000,000 Brooklyn Edison Company, Inc. Gen'l Mtgs. 20 year 7% Bonds, at 97⅜ and interest, to yield about 7¼%.
$4,000,000 Niagara Falls Power Company 1st and Cons. Mtge. 6% Bonds, due November 1, 1950, at 87½ and interest, to yield over 7%.

The first important public offering during the month of railroad securities was made on the morning of the 27th in the form of $4,500,000 Atlantic Coast Line Railroad 6½ per cent Equipment Trust Gold Certificates, Series D, due serially from 1922 to 1936, at prices to yield 7 per cent for the first five maturities; 6¾ per cent for the second five maturities and 6⅝ per cent for the last five maturities.

#### Realizing Losses.

We have several inquiries prompted by the newspaper reports of the selling of securities for the purpose of realizing losses which will count in income reports. The prevailing opinion seems to be that the government is defrauded.

To illustrate the effects of such sales let it be supposed that a person owns 500 shares of stock which cost him $100 per share. If the market price rises to $120 and he sells one-half he will have a profit of $5,000, which he must report for taxation. Later, perhaps, the stock may decline to $80, when, if he sells the remaining 250 shares he will realize a loss of $5,000, which he is entitled to report in his income statement.

The sale, if a bona fide one, is proof of the market value at the time, and if the stock should never recover in price the loss clearly would be a real one, entitled to a place in the income statement. But if it does recover the owner will be in the position of owning the stock at a lower cost than before, and if he sells will have a larger profit to report for taxation. In the case cited, if the stock rose from $80 to $100, the original cost, after the repurchase, and he sold at the latter figure, he would have a profit of $5,000, and the government would get the revenue lost by the original sale. In short, if the loss indicated by the realization sale proves to be not a real one, the settlement with the government is only postponed.

Dealers in securities are permitted to inventory them at market value, at the end of the year, like dealers in merchandise, and if other owners were permitted to do the same there would be no sales for the purpose of actually demonstrating losses.

THE NATIONAL CITY BANK OF NEW YORK

1921

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, FEBRUARY, 1921.

## General Business Conditions.

THE general business situation is marked by greater confidence than was manifest in the last weeks of 1920, and there are tangible evidences of improvement. The apprehensions and rumors of impending trouble which are always a demoralizing influence when the credit situation is under strain, have been largely cleared away. The irresponsible talk about a "panic" has been silenced. The epidemic of business failures predicted for the end of the year did not come. The number of reported bankruptcies has increased, but has not been alarming, and the cases have been mainly of small concerns of mushroom growth, who extended their business rapidly upon small capital while prices were rising and did not have the reserve resources to meet the losses that were inevitable when reverses came. The substantial business structure of the country is unshaken, and whatever anxiety there may have been upon that score has been relieved.

### Heavy Losses.

This does not mean that heavy losses have not been taken. Only the fortunate or sagacious few who began to trim their sails early in the year, and deliberately restricted their business, escaped. Some made good profits in the first six or nine months and lost most of them in the last three months, while many have come out of the year not only without a return upon the investment, but with an impairment of capital. Official price regulation, which curtailed profits while prices were rising, and prevented the creation of a cushion to absorb the losses while prices were falling, is held largely responsible for the dissipation of capital. Heavy taxation of course had a similar effect. Nevertheless, the leading business concerns of the country had been building up reserves for years in conservative fashion, and the proportion of important houses that have failed or been seriously embarrassed has been smaller than in any previous crisis approaching this one in gravity. This is a very reassuring circumstance and promises well for recovery.

### The Crops Moving.

The movement of the crops, particularly of grain and live stock has increased notably during the past month, in fact is practically normal. The receipts of wheat at primary markets are now running over those of the corresponding weeks of last year. Prices have been somewhat stronger than in December, wheat at one time reaching a figure about 25 cents per bushel above the low point in November, but most of this gain was lost at the end of January. Premiums over Chicago quotations amounting to about the freight charge from Kansas City to the Gulf ports have ruled at the latter upon the grades desired for export, and have helped local prices in the Southwest materially. Cotton rallied several cents early in the month, but lost it in the last week. The coarse grains have been heavy, owing to the big crops of all in 1920. Nevertheless, with products actually moving in the middle-west, the money situation relaxing, the reserve banks getting into better shape, and a fair degree of trade revival, the whole situation is looking better.

The winter wheat crop is in good condition to date, and although prices are down from what they have been, the world's supply and consumption are very evenly balanced. The crops of the Southern hemisphere have been large this year, but they are not very dependable from year to year, and until Russia again comes into the field as an exporter it would seem that wheat should be fairly secure in about its present position.

### Textiles and Shoes.

In cotton, woolen and silk goods a substantial gain in volume of business has been made since the first of the year. It might be put stronger than that, for almost any buying would have been an improvement upon conditions in December. Trade in wholesale markets and also production have been for several months not only below normal, but below current retail distribution. Stocks had been lowered and the way cleared for at least a moderate revival of buying by the trade and of activ-

ity in the industry. In cotton goods this has been especially notable, and has effected a slight recovery of prices, although there is but little disposition on the part of buyers to follow an upward movement In woolen goods there have been further reductions of 20 to 30 per cent, following upon the cuts of about the same proportions in September. Goods are moving in considerable quantities, the attitude of merchants being that they are wanting supplies for the Spring trade, and are willing to buy on the present basis, although not confident of a very large volume of business.

### The Equilibrium in Industry.

The fact which stares the retail merchant in the face is the diminished purchasing power of his customers. If he is located in a farming district he sees it in the diminished values of farm products and hears of it over his counters every day. If he is located in an industrial center he is obliged to take account of the fact that the industries generally are running on shortened time and with much reduced pay rolls.

The important thing in this readjustment, as we have endeavored to set forth from month to month, is the maintenance of the equilibrium in industry, so that the various branches of industry will continue to be mutually supporting. The market for the products of each industry is with the people employed in the other industries. This means that the prices of products must maintain a fairly uniform relation or distribution will be interrupted and production will have to be curtailed. This is the essential thing in keeping the industries running and in maintaining employment for the workers. It is not simply a matter of fair play between the industries, although that is something to think of, but the balance between the industries is as necessary to prosperity on one side as the other.

### Cooperation to Keep Prices Up.

Notwithstanding that the compensation of some classes lagged behind in the rise of wages and prices, on the whole goods and services went up fairly well together. The failure of some groups to keep up in purchasing power was made good by the great foreign demand and increased governmental expenditures. There is general co-operation in putting prices up; people may grumble, but they look for compensation through getting their own pay increased, a game at which the gains of some are at the expense of others, and which cannot go on indefinitely. When it comes to putting prices down, there are almost infinite difficulties and obstructions to be overcome. Everybody fights it so far as his own products or services are concerned, and by doing so delays the restoration of the equilibrium.

It does no good to be ill-tempered or harshly critical in discussing wages and prices. People are naturally biased in favor of their own interests, and if they really understand their own interests the results will not be bad, because the economic law is such that interests do not in fact conflict nearly so much as is commonly supposed. The point we are urging is that the highest degree of prosperity for every industry is to be had when all are on a common basis.

### The Fall of Prices in 1920.

Below we give a table showing the prices of thirty-two important commodities, for an average of several months of 1914 prior to the outbreak of the war, at the close of 1919 and the close of 1920, with the percentage of decline:

| Material | Pre-War Months 1914 | Close 1919 | Close 1920 | Decline During 1920 |
|---|---|---|---|---|
| Steel billets—Pitts.... | 20.50 | 48.00 | 43.50 | 09⅓% |
| Pig iron—Pitts.......... | 13.75 | 36.00 | 33.00 | 08⅓% |
| Copper, elect—N. Y.. | .1425 | .1875 | .13 | 30⅔% |
| Lead—N. Y. ............... | .0395 | .075 | .046 | 39% |
| Spelter—N. Y. ........... | .052 | .0885 | .056 | 37% |
| Cotton—N. Y. ........... | .132 | .3925 | .1475 | 62½% |
| Silk, raw, N. Y. ........ | 3.94 | 13.20 | 5.75 | 56½% |
| Wool, scoured—Bos. | .55 | 1.50 | .68 | 55% |
| Hides, 1 steer—Chi. | .18 | .42 | .20 | 52½% |
| Rubber, latex, N. Y. | .60 | .525 | .16 | 70% |
| Coffee No.7 Rio, N.Y. | .0912 | .15 | .0625 | 58⅓% |
| Sugar, raw, N. Y...... | .0311 | .0728 | .0539 | 26% |
| Wheat, 2 Red—Chi. | .92 | 2.16 | 1.73 | 20% |
| Corn—Chic. ............... | .67 | 1.45 | .68 | 53% |
| Oats—Chic. ................ | .395 | .82 | .47 | 42⅔% |
| Rye—Chic. ................. | .63 | 1.83 | 1.56 | 15½% |
| Rice—dom., N. Y....... | .055 | .125 | .0525 | 58% |
| Apples, bbl. 10's, N.Y. | 3.50 | 5.00 | 4.00 | 20% |
| Flour, Spr. Pat. N. Y. | 4.65 | 14.00 | 9.00 | 35⅔% |
| Coal, Bit.—Pitts......... | 1.30 | 2.35 | 3.75 | *60% |
| Petroleum—Okla. ...... | .85 | 2.75 | 3.50 | *27% |
| Steers, top—Chicago | 8.75 | 14.50 | 9.00 | 38% |
| Hogs, live—Chic............ | 8.20 | 14.25 | 9.60 | 33⅓% |
| Pork, mess—N. Y..... | 23.00 | 47.00 | 29.00 | 38⅓% |
| Lard, prime—Chic..... | .1052 | .2377 | .1265 | 47% |
| Linseed oil—N. Y...... | .54 | 1.87 | .80 | 57% |
| Cocoanut oil—N. Y.... | .115 | .19 | .1175 | 38% |
| Butter, extra—N. Y. | .245 | .7075 | .565 | 20% |
| Burlap, heavy N. Y. | .059 | .165 | .0565 | 58% |
| Prt. cloths, 28-64x60—N. Y. ........................ | .0338 | .1425 | .06 | 58% |
| Sheetings, 36-48x48—N. Y. ........................ | .0588 | .28 | .0725 | 74% |
| Cement, bbl.—N. Y. | 1.58 | 4.40 | 3.70 | 16% |
| Ave. decline in 1920 for commodities listed...... | | | | 36% |

* Denotes increase.

The compilation of retail prices by the Bureau of Labor, Washington, D. C., for a number of cities is instructive for the classification it makes of articles of common consumption and the percentage of average family expenditure for each group. The table below is the Bureau's table for Chicago:

| Item of expenditure | Per cent of total expenditure | Dec. 1915 | Dec. 1916 | Dec. 1917 | Dec. 1918 | June 1919 | Dec. 1919 | June 1920 | Dec. 1920 |
|---|---|---|---|---|---|---|---|---|---|
| | | Per cent of increase from December, 1914, to— | | | | | | | |
| Food | 37.8 | 2.7 | 25.2 | 53.4 | 78.7 | 73.3 | 93.1 | 120.0 | 70.5 |
| Clothing— | | | | | | | | | |
| Male | | 8.5 | 26.5 | 51.9 | 137.1 | 146.1 | 211.8 | 207.7 | 166.5 |
| Female | | 6.2 | 21.2 | 50.0 | 141.3 | 164.2 | 232.9 | 202.6 | 150.3 |
| All Clothing | 16.0 | 7.5 | 24.2 | 50.6 | 138.9 | 157.1 | 224.0 | 205.3 | 158.6 |
| Housing | 14.9 | *.1 | .7 | 1.4 | 2.6 | 8.0 | 14.0 | 35.1 | 48.9 |
| Fuel and Light | 6.0 | *.9 | 6.6 | 19.3 | 37.1 | 35.7 | 40.1 | 62.4 | 83.5 |
| Furniture and Furnishings | 4.4 | 5.9 | 20.0 | 47.5 | 108.9 | 126.9 | 176.0 | 215.9 | 205.8 |
| Miscellaneous | 20.6 | 3.0 | 19.5 | 41.8 | 58.7 | 61.7 | 84.3 | 87.5 | 96.5 |
| TOTAL | 100.0 | 3.0 | 19.5 | 41.8 | 72.2 | 74.5 | 100.6 | 114.6 | 93.3 |

* Decrease.

### An Uneven Decline.

If this table is compared with the table above it will be seen that there is ground for the farmer's complaint that his staple products as he sells them are back nearer to pre-war prices than they are at retail, or than most of the goods he is obliged to buy. Foodstuffs at retail in December, according to the Bureau of Labor, were 70.5 per cent above 1914 prices. Clothing for which the farmer furnishes the cotton and wool at little above pre war prices, is 158 per cent above the pre-war level, while furniture and furnishings are 205 per cent above that level.

Taken as a whole this comparison between raw materials and food at wholesale and common articles of consumption at retail shows that the readjustment of prices has not proceeded far enough to allow a general resumption of industry or to furnish the basis for a state of prosperity. The producers of the raw materials cannot sell them at the prices they are receiving and buy the finished goods at the prices prevailing for them, and keep the latter industries employed.

The makers of farm implements are sensitive about criticisms leveled at them for maintaining prices. They say that the biggest single item in their costs is steel, and say that it is higher than when they made up their price lists for 1919. Another important factor is fuel, which is higher, and another, freight charges, likewise higher, and finally labor, upon which there has been little or no reduction.

The independent steel producers have reduced wages about twenty per cent. Their prices had been above those of the United States Steel Corporation, but have been reduced to that level, and in some instances below. The big concern has made no move as to wages, and little change in prices as yet. The independents say that with wages as they are, fuel, freights and supplies as they are, they can make no further important reduction in prices.

The price of coal is affected by the wage increases granted to miners, by higher freight charges, higher equipment costs, and higher prices for supplies, while the cost of railroad service is due to the high cost of coal, wage increases, high cost of equipment and supplies.

The clothing manufacturers say that while there are reductions upon cloth, that is only one factor in the cost of a suit of clothes, and that nothing else is lower. The manufacturers of cloth admit that their raw material is lower, and they have reduced wages 20 to 30 per cent, the reduction throughout New England being 22½ per cent. A calculation made by the United States Bureau of Labor, based upon an investigation of the cotton goods industry north and south, shows that in the summer of 1920 hourly wages in that industry on the average were 3.6 times as high as in 1907, 3.2 times as high as in 1913, and 1.8 times as high as in 1918. Fuel, freight, taxes, machinery, repairs, and supplies generally are still on the high level.

If we go around the industries we find them all in a like situation, elevated upon an abnormal basis of costs, and with costs so interlocked that none seems to be able alone to make any important reductions. All plead helplessness, and particularly their wish to avoid wage conflicts, wages being the chief item in each case.

That spirit is commendable. The subject of wages is one that should not be dealt with arbitrarily, but on the contrary should be dealt with considerately, carefully and after full conference with all concerned. The question how to get back to full employment and general prosperity interests everybody and should be discussed amicably together.

### The Wage Question.

It is not agreeable to disturb wages, but the fact is that wages have been disturbed by forces over which nobody has control. When millions of wage-earners have already lost their jobs, and many of the others are working only part time, it is apparent that wages have been reduced. The unfortunate thing is that they have been reduced in a manner which

accomplishes nothing. The ability of wage-earners to buy for consumption has been reduced without reducing costs in the industries and without corresponding reduction of their own living costs. They are getting the farmers' products at less than formerly, but not getting the full benefit of the reductions that the farmer has suffered, because of increased freight charges and the higher cost of all the intermediate services, which are due in the main to higher wages for somebody. For instance the baker cannot reduce the price of bread to correspond with the reduction in flour, because flour is only one item in his costs. His labor, delivery costs, machinery, coal, freight charges, supplies, etc., which mainly represent labor, have not come down to correspond with wheat or flour.

### Wage-Rates vs. Wage-Payments.

The disposition is to lay too much emphasis upon wage-rates over actual wage-payments. The employers and employes in a given industry may agree harmoniously upon a given scale of wages, but if that scale involves an increase in the cost of the product to consumers, and consumption falls off, employment will fall off, and the total sum disbursed to wage-earners may be less than if the wage-rates were lower. There is a certain price for every product which promotes the largest distribution and a certain adjustment of relations between the industries which promotes a free, full exchange of commodities and results in the largest demand for goods and services. That is the situation which gives prosperity, while a disruption of such relations results in a deadlock, such as exists at this time.

The advances in railroad wages may have been necessary at the time they were made, to keep that group of workers in balance with the others, but they have necessitated an increase of freight and passenger charges which has become a serious burden to industry. Moreover, traffic has fallen off until the railroads are realizing only about 60 per cent of the net income which the new charges were intended to assure. The railroads cannot be maintained on the basis of present income, but evidently the remedy is not in further advances, but in a drastic reduction of operating costs, and they have set themselves to that task by laying off thousands of employes. So the evil effects of a wage-scale out of harmony with conditions, after being felt in all the other industries come back upon the railroad employes themselves.

The building industry is marking time, although the need for construction work is greater than ever before, because the high costs are prohibitive. If building should go on under these conditions the costs would be chargeable in the form of high rentals largely for labor to pay. Would-be builders doubt if they can obtain such rentals and building is almost at a standstill in consequence.

### Where the Obstruction Is.

The decline in the prices of agricultural products and other raw materials has effected a substantial reduction in living costs. It is not these things that are obstructing the way to a general readjustment, and a revival of industry. Nor is it the profits of employers that are obstructing the readjustment. Profits have been largely eliminated. The condition of easy sales, which makes a sellers' market, has passed. The high cost of living of which the wage-earners now complain, is in their own wage scales, which, however, are largely nominal, not yielding real results, because of the amount of lost time.

This is the situation which everybody is side-stepping, while looking hopefully from day to day for better times. The times cannot get materially better while industry remains in this unbalanced state. It would be as reasonable to expect a factory to make a satisfactory record in production without having its several departments in balance and working harmoniously.

### The Alternative.

Of course, if the prices of farm products and raw materials should recover and thus restore the buying power which about one-half the people of this country have lost, we could resume industrial activity where we left off, but these prices are dependent largely upon world conditions and we can do little to influence them. Shall we wait indefinitely for that to happen, or try to adjust relations among ourselves so that everybody can have work?

The farmers are planning in some localities to reduce production to raise prices, but it will not help the town-workers to have the equilibrium restored in that manner. The latter can better afford to take lower wages, accompanied by lower living costs. The restoration of industry to balance and activity upon a lower level of money-wages and money-prices would improve the position of the wage-earners, and put this country in better position to aid in the restoration of Europe, and that would react favorably upon this country. Wage-rates in terms of money should have a degree of flexibility, giving them a relation to the selling value of products.

One way or another, the equilibrium must be restored. It may be done speedily by understanding and co-operation, or it may take years while industry languishes. The question is larger than an issue between wage-earners and employers. It is a question of adjusting relations between groups of producers so that a full exchange and consumption of products can go on.

## Money and Banking.

The money market eased notably in the early part of January and firmed up in the last week. The changes were most evident in bankers' acceptances and funds temporarily employed on stock exchange collateral. The market for acceptances was broad and active, with the result that the rate on prime 90-day bills declined from 6¼ to 5¾ per cent, country banks being the principal buyers. At 5¾ per cent the demand fell off and in the last days of the month the rate advanced to 6 per cent. It is gratifying to observe that the number of bankers interested in the bill market is constantly increasing. The call money market fell to 5 per cent, and even lower, in the early part of the month, and an important amount was loaned at that rate, but the month closed at 7 per cent. Loans on mixed stock exchange collateral fell as low as 6½ but at the close of the month were back to 7½. The run of good commercial paper is on an 8 per cent basis, but a relatively small number of choice names in the market only occasionally are going at 7½ per cent.

The reaction from the rapid decline of interest rates probably resulted from the fact that money having been dumped into a relatively small field, the rates became comparatively low, and funds were withdrawn or shifted to other uses. The movement of funds turned against New York.

There are indications that the reduction of loans accomplished by the Western Reserve banks has created fresh demands on New York.

The position of the Federal Reserve Banks has shown some degree of liquidation, total earning assets, at $2,968,544,000 on January 14, showing below the $3,000,000,000 mark for the first time since December 19, 1920. The high mark was $3,421,976,000 on October 15 last. Inter-bank borrowings, which aggregated about $250,000,000 in October had been reduced to $41,000,000 on January 28, held by the reserve banks of Boston, Philadelphia and Cleveland for three reserve banks in the west and south. Standing alone these three banks would show reserve percentages around and above 70. Next to them stands the San Francisco bank, with a percentage on the date named of 55.2. The New York bank is held down by the heavy loans of the New York City member banks to correspondent banks in all parts of the country. The Chicago bank also is affected by the loans of member banks outside of the district.

How the borrowing reserve banks would have stood in their reserves on January 1, without the aid thus received from the other reserve banks is shown by the following table:

| Reserve Bank: | Actual Reserve | Without Borrowing |
|---|---|---|
| Richmond | 46.2% | 41.05% |
| Kansas City | 41.6 | 29.9 |
| Minneapolis | 39.2 | 29.7 |
| Atlanta | 41.4 | 27.6 |
| Dallas | 40.2 | 16.3 |

Since the above date the Richmond and Kansas City banks have paid off their borrowings and are now on their own feet, with their legal reserves.

The amount of Federal reserve notes in circulation on January 28, 1921, was $3,090,748,000, which compares with $2,844,227,000 on January 23, 1920, and $3,356,199,000 at the peak on October 22, 1920.

The aggregate of all liabilities of the reserve banks, other than capital and surplus, on January 28, 1921, was $5,559,544,000, against $5,964,038,000 on January 23, 1920. Their total reserves at the former date were $2,319,974,000, against $2,987,896,000 on the latter date.

It is a little strange that the amount of reserve notes in circulation does not diminish more rapidly, in view of the decline of prices and falling of trade and of wage payments. It indicates a considerable amount of currency withdrawn from circulation in private holdings.

The fact that liquidation proceeds slowly need not be a matter of concern, now that it is started. People part with their products reluctantly at prices that are unsatisfactory, and only as they have payments to meet. They are economizing in personal expenditures. At the present level of prices it is not to be expected that the debts created in the years of expansion will be all cleared up in a single year, but trade will feel the effect of debt-paying until the relation between income and indebtedness is much more normal than it is now.

## Foreign Trade and Exchange.

The foreign trade of the United States in 1920 was greater in value than in any previous year, aggregating $13,500,000,000, against $11,827,000,000 in 1919. Exports were $8,221,000,000 against $7,922,000,000 in 1919, and imports $5,279,391,364, against $3,905,000,000. The increase in imports was large, but was not maintained in the latter part of the year. Exports held up well to the end of the year, in view of the low rates of foreign currencies in terms of the United States dollar. Of wheat 26,035,147 bushels went out in November, 25,896,270 in December, and 218,280,231 in the year 1920, against 148,086,470 bushels in 1919. The value of breadstuffs exported was greater in 1920 than in 1919 by $158,676,681, but of meats and dairy products less by $616,772,575.

The foreign exchanges gained during January quite decidedly, which is not what might be expected in view of the large trade balances

in favor of the United States in recent months. Those who are in contact with the market continue to hold the opinion, repeatedly expressed, that much of recent exports was bought and the exchange to cover secured in the summer or early fall months.

The total foreign trade of Great Britain in 1920 was £3,272,301,147, which is not far behind the United States and shows a net increase of exports of £226,344,752 over 1919.

The neutral countries of Europe have had quantities of American goods in warehouses upon which they have been taking heavy losses as moved, and have not completed the liquidation.

The opinion is held in some quarters that the exchanges were unduly depressed in the last month of 1920, and that this rally is a natural reaction. It is certainly true that with anything like settled conditions the natural flow of trade and investment capital would soon greatly reduce the premiums now prevailing. The adverse balance of trade was very much less for all the European countries in 1920 than in 1919, and it only requires continued progress in the same direction and an adjustment of governmental revenues to expenditures, to put the exchanges on a fairly stable basis.

The table of exchange rates is as follows:

| | Unit Value | Rate in cents Jan. 27 | Rate in cents Dec. 28 | Change from Par | Depreciation |
|---|---|---|---|---|---|
| Canada | 1.00 | .90 | .8550 | .10 | 10% |
| Germany | .2382 | .0182 | .0136 | .2220 | 92% |
| Italy | .1930 | .0372 | .0330 | .1558 | 80% |
| Belgium | .1930 | .0755 | .0610 | .1175 | 61% |
| France | .1930 | .0720 | .0580 | .1210 | 63% |
| England | 4.8665 | 3.8450 | 3.51 | 1.0215 | 21% |
| Switzerland | .1930 | .1597 | .1515 | .0333 | 17% |
| Holland | .4020 | .3365 | .3125 | .0655 | 16% |
| Denmark | .2680 | .1990 | .1540 | .0690 | 26% |
| Norway | .2680 | .1903 | .1540 | .0777 | 29% |
| Sweden | .2680 | .2195 | .1970 | .0485 | 18% |
| Spain | .1930 | .1385 | .1295 | .0545 | 28% |
| Argentine | .9648 | .7970 | .7600 | .1678 | 17% |
| Japan | .4985 | .4865 | .4800 | .0120 | 2½% |

## Demand and Time Loans, 1920.

Perhaps our readers have not forgotten that there was some controversy last year over the interest rates upon call loans. We are now able to give the average of renewal rates for every month in the year for demand loans and 90-day loans on stock exchange collateral, as shown by the records of the stock exchange. We give also the same information for the year 1919.

| | Demand loans | | 90 day loans | |
|---|---|---|---|---|
| | 1919 | 1920 | 1919 | 1920 |
| January | 4.87 | 8.61 | 5.51 | 7.65 |
| February | 5.02 | 9.38 | 5.61 | 8.78 |
| March | 5.05 | 8.13 | 5.76 | 8.44 |
| April | 5.36 | 7.43 | 5.84 | 8.31 |
| May | 5.34 | 7.10 | 5.70 | 8.50 |
| June | 6.30 | 7.47 | 5.94 | 8.31 |
| July | 6.45 | 8.39 | 6.25 | 8.59 |
| August | 5.30 | 7.26 | 6.36 | 9.00 |
| September | 5.62 | 7.07 | 6.03 | 8.48 |
| October | 7.45 | 7.79 | 6.40 | 7.93 |
| November | 10.43 | 7.78 | 7.02 | 7.84 |
| December | 8.06 | 7.00 | 7.60 | 7.34 |
| Average | 6.27 | 7.78 | 6.17 | 8.26 |

It will be seen by the above figures that except for a few months in the last half of 1919 and early part of 1920 the average renewal rate for call loans was lower than the average rate for 90 day loans. We find that this has been true of the average in every year since and including 1908, and that excepting the years 1890, 1899, 1902, 1906 and 1907 it has been true in every year of the last thirty years. This explains what some people unfamiliar with the New York money market have never been able to understand, to-wit: Why anybody dares to borrow money "on call." The explanation is that so much money is always for loan on call that there is seldom any difficulty in getting money at fair rates. The fact that the renewal rate for 30 years has averaged below the 90 day rate is conclusive evidence. Occasionally when money is being withdrawn from the New York market, there is a pinch in the call rate, but the high rates last for so short a time that they do not affect the average very seriously. Outsiders who are not familiar with the New York conditions sometimes are misled by them.

## The Clothing Industry.

One of the industries most seriously affected by the trade reaction is that of clothing manufacturers', and the story of its rise and fall since the Armistice is interesting for the lesson in price movements that it teaches.

Ready made clothing is usually made upon order from the trade and preparations for a season are made well in advance. Light weight cloth for spring wear is ordered of the mills as early as the previous June, samples are made up and in October salesmen go out on the road to take orders for spring garments. The manufacture of the garments commences some time early in December and deliveries to the retailers are completed by the following March and are placed on sale to the consumer in April. The heavy weight cloth for winter garments is bought from the mills in November, the line is opened in April, manufacture is commenced early in June and completed in the fall when the retailers place the goods on sale. The manufacturer is thus compelled to purchase his material from nine to twelve months before it reaches the consumer and from four to six months before he receives his orders from the retailer. The retailer, of course, likewise takes a chance for he must anticipate the coming demand of the consumer as best he can.

Following the signing of the Armistice the outlook for business seemed extremely poor. It was feared that general business was going

to be slack and that the demand for clothing would not be great. The time for buying cloth was in November, the month of the signing of the Armistice. The manufacturers, therefore, felt that it would be prudent to buy very sparingly and that if business should prove better than anticipated, they would have no difficulty in securing cloth in the open market later in the season. The retailers took the same view of the situation and were conservative in placing their orders.

### After-the-War Boom.

Contrary to these general expectations, business proved the best on record and by May a veritable clothing famine developed. The soldier boys came home from the war and all wanted citizen clothes. Retailers rushed to the wholesale clothing markets and frantically outbid one another for clothing. Manufacturers in turn were obliged to seek cloth in the open market and were confronted with the same difficulty of securing it. The demand exceeded the supply, the competitive situation drove up prices, there being no difficulty in passing advances on to the retailer and consumer.

Labor, likewise, was in inadequate supply and the same competitive situation developed with respect to it.

The New York market where about 60 per cent of the total supply of readymade clothing is made, and where the situation is highly competitive, was the focus of the situation. Wages went bounding up so that between May and December of 1919 wages in New York rose from 100 per cent to 200 per cent. Pressers who were averaging $20.00 per week early in 1919 were receiving as much as $60.00 by the end of the year. Tailors, pocket makers, sleeve sewers and other machine operators were commanding wages ranging all the way from $50 to $75 and $80 a week. Moreover, piecework had been abolished in New York without the substitution of any standards of production, and the natural thing under the circumstances happened, to wit: individual efficiency declined and production fell off, adding still more to the costs. However, the demand for goods and for labor was so great that everything was tolerated, because there was no time for controversies over costs or discipline, and the charges could be passed on to the retailer and consumer. It was an orgy of wage and price inflation, and has had its penalties.

The situation was unbalanced and abnormal, as was the general situation. These wage advances were taking place when butter was 75 cents per pound, at wholesale, wheat $3 per bushel, corn $1.50 per bushel, cotton 30 to 40 cents per pound and other things in proportion.

In other clothing centers, such as Chicago and Rochester, where manufacturing is carried on in large modern factories, and with less of contracting in small shops, the situation did not run wild to the same extent. In those cities piece work was maintained to a considerable extent, and with production standards for week workers. It is claimed that prices did not advance as much in these markets, and that owing to the unforeseen rise of costs, profits were less rather than above normal.

### After-the-Boom Slump.

By the close of 1920 the situation had been completely reversed. When the orders for heavy weight garments were being placed by retailers last April business was booming; the outlook was extremely rosy, and the retailers, not wishing to be caught with a shortage of goods as in the previous year, and anticipating that their orders would be scaled down, ordered in excess of their real wants. The manufacturers ordered in the same manner of the mills, who had on their books the greatest season's business ever known.

Then came the slow Spring sales. A panicky feeling spread among the retailers, cancellations began and spread, it having been the established custom of the trade to accept them up to the time that cloth had been cut and work on the orders begun. As a result manufacturers had many goods left on their hands and the mills have been in even worse plight.

These goods have been moving at heavy sacrifice.

### The Rochester Situation.

A correspondent describes the situation in Rochester, which is an important point in the industry, as follows:

In the Rochester clothing market four general wage increases took place within fourteen months as follows: September 1918, general increase of about 15 per cent; April 1919, reduction of hours from 48 to 44 per week and an increase in the hourly rate of about 25 per cent for week workers and of 15 per cents for piece workers; August 1919, average increase of 10 per cent; and December 1919, increase of about 22 per cent. The total increase in wages thus amounted to over 75 per cent. In addition to that there were numerous individual increases obtained by what we call the "nibbling process," which individual workers were able to effect under the threat of leaving employment at a time when labor was extremely scarce and it was practically impossible to replace workers in key positions.

Last August although the downward trend in the industry had already clearly set in, the Union presented its demand for an increase in wages in all of the clothing markets, but was uniformly turned down by the arbitration boards in all the markets. There has been so far no adjustment of wages downward. There have been individual expressions of opinion among manufacturers favoring that course, but none of the manufacturers' associations in tho clothing industry have so far taken any official action. Under the agreement with the Union, no individual manufacturer can reduce wages on his own initiative. The request for a reduction in wages would have to be made officially by the Clothiers' Exchange to the Amalgamated Clothing Workers' Union. It goes without saying that the Union would object and that the matter would go to arbitration. Under the rules prevailing in our market, the demand could not be presented before next February, and if a decision were

rendered for a reduction of wages, it could not go into effect before next May when the heavy weight clothing season begins. In other words, so far as the Spring season is concerned, which starts in next month, wages will have to be maintained at the old standard.

This looks like a situation where the "stabilization" of an industry has been carried to the extent of depriving it of the ability to adapt itself to changing conditions.

#### New York City Situation.

In New York City the manufacturers are insisting upon a return to piecework or the establishment of standards of production. They are also standing for the introduction of labor-saving machinery which heretofore has been successfully resisted by the unions. The proprietors are opening shops on these terms, and with piece rates which they contend should yield wages, on the average not materially less than have been paid. The unions are resisting and are reported to have raised a million dollar strike fund, which is not improbable, in view of the fact that they gave $250,000 to support the steel strike. It is only a few months since statements were given out to the effect that they were about to enter business on their own account, which would seem to be a better way to use their million dollars, for that would be a perfectly legitimate way to get rid of the bothersome employers entirely.

Men's clothing is made principally in New York, Chicago, Boston, Rochester, Baltimore and also at Montreal. Although about 200,000 are normally employed in this line in these cities, not less than 160,000 are out of work today.

There seems to be agreement among authorities in the trade that all costs are destined to come down, and that clothing will be considerably cheaper this year than last. Cloth, thread, linings, etc., which have fallen decidedly, constitute about 60 per cent of the cost of clothing.

### A Record of Prices.

Mr. Gilbert K. Chesterton, a noted English writer who is lecturing in this country, said in his first lecture that he had come seriously to the conclusion that the most profound criticism of the education and culture of the present time was to be found in an utterance which he attributed to Artemus Ward, but which if we are not mistaken belongs to Josh Billings: "It ain't so much people's ignorance that does the harm as their knowing so darned much that ain't so."

This is suggestive of a vast amount of writing and talking just now current about business conditions, and particularly about the manipulation of markets against the farmers. The following paragraph is taken from a recent article in a weekly publication of high class and large circulation:

> The markets are crowded with crops at one season and are almost empty of them at all others. This means that when the farmer is harvesting his year's return, his products bring him in the least. They are bought up by speculators when they are cheap and when the farmer must sell in order to get money to pay his bills, and then the dealers manipulate the amount they will let loose on the market until harvest time comes again, and at prices to meet their own speculative and immoral wishes.

Mr. George H. Johnston, cashier of the Citizens State Bank of Wales, North Dakota, had read statements of this kind until he thought he would like to know how much truth there was in them. He did what it is charitable to suppose the writers had never done, i. e., he went to the records of the Department of Agriculture at Washington and the annual reports of the Chicago Board of Trade, and put the results of his inquiry into a letter which has been published in "North Dakota Banker." We quote, in part, below, the two columns of figures together covering the period from 1901 to 1919 inclusive:

> What are the facts? Has the price of wheat been lower in the fall than in the spring and in case it has been lower is the difference in price more than is necessary to pay for interest on money, insurance, shrinkage of wheat and storage room for the wheat? You can find the answer to this question if you will study the tables given below.
>
> Column One gives the average monthly prices for the ten-year period, 1901-1910, of cash wheat in Chicago.
>
> Column Two gives the average farm prices for wheat on the first of each month, 1910-1919:

| Months: | One 1901-10 | Two 1910-19 |
|---|---|---|
| July | 93.1c | $1.27.8 |
| August | 92.1c | 1.28.9 |
| September | 92.7c | 1.28.4 |
| October | 92.3c | 1.28 |
| November | 91.1c | 1.31.1 |
| December | 93.3c | 1.30.2 |
| Average price for six months, July-December | 92.4c | $1.29 |
| January | 91.2c | $1.20.5 |
| February | 93.5c | 1.26.4 |
| March | 92.8c | 1.25.6 |
| April | 92.3c | 1.27.1 |
| May | 95.6c | 1.37.2 |
| June | 95.7c | 1.36.5 |
| Average price for six months, January-June | 93.5c | $1.29 |

> Column Three gives the per cent of wheat marketed by U. S. farmers in different months.
>
> Column Four gives the per cent of wheat marketed by North Dakota farmers for each month of the year.

| Months: | Three | Four |
|---|---|---|
| July | 12.6% | 2.9% |
| August | 14.9% | 5.2% |
| September | 16.8% | 19.9% |
| October | 14.6% | 19.8% |
| November | 10.9% | 16.3% |
| December | 7.8% | 10.6% |
| Per cent of grain marketed by farmers in six months period July-December | 78% | 75% |

| | | |
|---|---|---|
| January | 6.7% | 5.8% |
| February | 4.6% | 4.6% |
| March | 3.3% | 4.2% |
| April | 3.5% | 2.7% |
| May | 3 % | 2.7% |
| June | 2.3% | 4.4% |
| Per cent of grain marketed by farmers in six months period January-June | 22% | 25% |

These tables show that for the years 1901-1910 the farmer who held his wheat until the six months period January-June received only one and one-tenth cent more per bushel than the farmers who sold shortly after harvest. This one and one-tenth cent would not come any ways near paying for interest on money, shrinkage of grain, storage and insurance.

For the years 1910-1919 the farmer who held his wheat until the six months period January-June received not one cent moreper bushel than the farmer who sold shortly after harvest.

In the past twenty years the North Dakota farmer who marketed his wheat in November and December made more money than the one who held his wheat until spring.

The prevailing idea that wheat is always much higher in the spring than in the fall is fallacy as is proved by these tables.

There is another idea prevalent which is proved fallacious by these tables and that is the idea that the grain buyers, speculators, Chamber of Commerce, terminal elevators, millers and bankers combine to depress prices when the farmer sells and boost prices as soon as the wheat is out of the farmers' hands and into the hands of the speculators.

The farmer marketed 78% of his wheat in the six months period, July-December, and during that six-months period average price of wheat was not one cent lower than during the other six months period when the farmer marketed only 22% of his wheat. (This is for the years 1910-1919.) For the years 1901-1910 wheat was one and one-tenth cent lower when the farmer marketed 78% of his wheat, but this margin would not pay for expenses of holding into the next six months period.

No honest man can go through these tables and then claim that the Minneapolis Chamber of Commerce and the Chicago and Duluth Boards of Trade fix the price of wheat so as to force the farmer to accept a low price when he markets his grain and then boost the price before they pass it on to the consumer. Yet I have heard such accusations made time and again not only by farmers but by bankers and other business men.

We suggest that the various farmers' organizations study these figures and investigate them. If they are substantially correct, as we have reason to believe they are, they are worth more as a guide to action than all the theories and opinions with which they are overwhelmed.

## Meat Packers' Profits.

The Armour and Swift reports to stockholders show that each of these companies had to go into the surplus accumulated in other years to pay the dividends of the last fiscal year.

Armour's sales aggregated $900,000,000, and the statement shows that the operations in this country resulted in a net loss, but including the Armour establishments in foreign countries netted a return of 2.4 per cent on the average capital investment of $231,000,000.

The Cudahy Company discontinued dividends during the year, and reported a deficit which was charged against the surplus accumulated in other years. The President in his annual report to stockholders stated that this outcome was due to losses taken upon products on hand, and added:

> The farmer who, during the last year, sold his fattened cattle at less than he paid for them as feeders, or who was unable to realize from his hogs the value of the high-priced corn used to fatten them, should bear in mind that the packer who bought them has probably sold the product at even greater loss. In other words, the packer with products in course of preparation or cure at all times is the owner of what is equivalent to many thousands of cattle, hogs and sheep. Few live stock producers realize that declines in live-stock prices affect the packer to a much greater extent through such holdings than they affect any individual producer.

Swift & Company's earnings for the last ten years, as reported to stockholders, who now number about 40,000, have been as follows:

| Fiscal Years | Sales | Net Profit per Dollar of Sales (cents) | Net Profit on Net Worth (Capital and Surplus | Net Profit (plus Interest paid) on Total Assets |
|---|---|---|---|---|
| 1911 | $275,000,000 | 2.23 | 7.24 | 6.09 |
| 1912 | 300,000,000 | 2.75 | 8.17 | 7.55 |
| 1913 | 400,000,000 | 2.31 | 8.89 | 8.34 |
| 1914 | 425,000,000 | 2.21 | 8.75 | 7.24 |
| 1915 | 500,000,000 | 2.81 | 12.56 | 10.27 |
| 1916 | 575,000,000 | 3.56 | 16.93 | 11.59 |
| 1917 | 875,000,000 | 3.96 | 25.61 | 17.13 |
| 1918 | 1,200,000,000 | 1.76 | 13.22 | 10.41 |
| 1919 | 1,200,000,000 | 1.15 | 6.91 | 6.37 |
| 1920 | 1,100,000,000 | .44 | 2.17 | 3.79 |
| Ten Year Average | 685,000,000 | 2.07% | 10.18% | 8.25% |

These figures show moderate fluctuations before the war, an increase of profits while business was being done upon a rising scale of prices, and the decline of profits since the armistice, with the price movement downward. The big year in the business was 1917, when the prices of live stock and products rose rapidly and profits were enhanced by the gains upon stocks on hand. These gains were all lost, however, in the three years 1918, 1919 and 1920, in the declines which then occurred. The average profit for the last five years was less than for the five years 1911-15.

The figures show how an increase in the volume of turnover, although accompanied by only a small increase in the percentage of sales' profit, will yield a disproportionate profit upon capital.

They demonstrate anew that the meat-packing business is conducted upon a smaller margin of profit than any other industry which is at all comparable in extent of organization, multiplicity of detail and degree of risk. All income contributing to the profits of the business, including that from by-products and the operation of private car lines, is taken into this account.

## The Agricultural Situation.

We have a letter from a business man, resident in New Mexico, and well informed upon the live stock and other interests of the Southwest, which contains so many suggestions pertinent to the present situation that we give space to the greater part of it herewith:

Unfortunately when market quotations are largely nominal there is no vehicle for information sufficiently reliable to convey conviction to the men at the head of financial circles, who must know the actual facts in order to devise adequate remedial measures. For a year past I have been heartsick at this lack of contact between facts and finance.

Leaving out of consideration the New England and Middle Atlantic States, with which I am not in touch at present, it is a fact that at the farm and on the range values of staple farm products and livestock have depreciated very much more than thirty-three and one-third per cent. Cotton, corn, wheat, cattle, sheep, wool and hides are today below pre-war values to the producer. This condition has arisen suddenly and concurrently with advances permitted to railway labor and freight rates, a guarantee of 6 per cent earnings to the railways, and a tremendous increase of credits to the producers themselves, partly based upon the necessity to protect loans already made; but far too largely in expectation of a continuation of high values.

Many of our friends in Congress, as it appears to me, are ill advised in the character of criticism upon the handling of the Federal Reserve system.

A prominent banking authority in addressing the meeting of the American Farm Bureau Federation advocated credits to enable the producer to hold farm products a year for distribution and carry over a surplus. I consider this principle wrong. I do not believe the farmer is capable of being also a distributer, nor do I believe he has capital enough to justify the attempt on his part to produce two crops while carrying one, no matter what credit he might obtain. It is very certain that the range or farm livestock producer has not the room or the feed to attempt it. He must sell annually and some one else must distribute.

Take wool for an example of the effect of such a system. The grower has been loaned 20 cents per pound to hold his wool, thus increasing the strain on the Western reserve districts. Naturally his ideas of value have been stiffened. He has staid off the market. The factor who usually bought his wool might with the 20 cents credit have done so this year. Relieved of this burden and with the grower out of reach he has become an importer. Result—more wool than ever on hand—no market for anyone. All hands face bankruptcy and nobody can buy clothes!

We are not suffering from lack of credit, but from the abuse and wrong application of credit, which have been the two largest factors in unsettling sound business and destroying confidence. Confidence once destroyed is most difficult to restore, especially when it faces such appalling losses in values of all collateral for debts already incurred as it does throughout the nation at the present time.

President Hagenbarth's statement to the Ways and Means Committee that throughout the West present indebtedness upon sheep is six dollars to twelve dollars, average nine dollars, upon cattle thirty dollars to sixty dollars, average thirty-five dollars, must be very close to correct. Ewes on the market have netted as low as 32 cents a piece; cows shipped from here netted $13.50 each on Kansas City market. On such markets even at top figures for range stock we can not liquidate even enough to meet current expenses. Naturally there are no range sales. Where and when can we get off?

Surely present experience demonstrates that the elasticity for inflation of the Federal Reserve system is a double edged sword without proper direction and control. It is dangerous for the average banker, if not even for the expert.

Am I wrong when I conclude that civilization has reached the stage where some fundamental differentiation must be provided between credits for the production and the distribution of the necessities of existence and credits for luxuries, fads and fancies, or our whole financial structure will be overturned? We must so safeguard, by adequate financing, food, clothing and housing that we can properly restrict waste and idle luxuries in time of need without hitting everyone with the same rediscount club unless he can dodge it, which the gambler, profligate and profiteer can always do, and leave it to the producer and legitimate business man to go to the hospital or graveyard.

The first requisite is a correct moral attitude toward the problem and not the present widespread attitude of "every one for himself and the devil take hindmost," evidenced ad nauseam by profiteering and its twin, cancelitis.

Longer term and cheaper credits are needed for the producer to meet the unavoidable expense and risk of production so that one crop disaster will not put him in the discard.

The best minds of the country must also devise an adequate financial system for distribution of these same necessities of existence; so that this load may be lifted from the producer and not be dropped upon him without warning as has been done this time.

Is not the present cataclysm severe and widespread enough to convince every thinking man that not only is emergency treatment needed to relieve the present economic pressure upon agriculture and livestock; and to pro rate equitably the losses necessary to restore our economic equilibrium; but that adequate permanent protection must be provided against a recurrence of this pyramiding of losses upon the producer by all other commercial interests in time of stress under the delusion that while he cannot escape everyone else can?

Does not our present banking system, based upon rapid turnover and short time paper, inevitably bring about this combination and this result, especially when credit is refused to all those interests which usually hold as intermediaries for the orderly distribution upon the markets?

One of the most significant utterances in this letter is the statement that the first requisite for sound social conditions is a correct moral attitude toward them. When everybody is willing to guide his actions by policies that will serve the interests of the community to the best advantage, conditions will be far better for everybody. Ignorance of mutual interests of course causes most of the trouble. It caused the war, and the disorder in Europe which has delayed recovery from the war. It has prevented this country's doing all that it might do in aiding the recovery of Europe, and our failure to give such aid has reacted upon our own business situation.

It is perfectly true that greater consideration should be given to the provision of capital and credit for the production of necessities than for "luxuries, fads and fancies," but that responsibility cannot be placed upon a few, or upon a single class, such as the bankers. The public would rebel if the exercise of arbitrary power by the bankers was carried very far. We grant that the bankers should direct their support so far as practicable to this end, and we believe that very generally they give such preference. But bankers have only a limited control over the funds in their keeping. The people who own the bank deposits have the real control over their use. As a rule the

depositors are also the borrowers. They have the first claim as borrowers. A depositor, whether an individual or a corporation, expects to have borrowing accommodations reasonably corresponding to credit balances and responsibility, and if not accorded them at one bank will look for them elsewhere. Moreover, if people cannot borrow of banks they will borrow of individuals. Any banker will testify as a common experience, that when he ceases to make loans the applicants will borrow of his depositors. A bank begins to lose its deposits from the day that it begins to curtail credit accommodations.

#### Social Responsibility Is Widespread.

Our correspondent's idea of social responsibility is sound, but it is impossible to concentrate that responsibility upon a few, or for the government to assume it. The great body of the people must share in it, and shape their thinking, their actions, their habits, their spending accordingly. Nobody can do very much for the people but the people themselves. They must understand the interest they have in sound public policies, and that there can be no sound public policies without their co-operation.

It is deplorable that so much should be wasted in vulgar display and indulgences that are harmful instead of beneficial, but it is a very doubtful policy to attempt to regulate personal expenditures. After all is said, if that is what people want it is what they will work for, and is an incentive to their efforts. One person works for the purpose of gratifying one ambition, and another person to gratify a wholly different ambition. What appeals to one does not appeal to another, and would not prompt another to exert himself. The main thing is that everybody shall exert himself to render some kind of service in exchange for that which he wants. In other words, it is necessary that everybody shall have an incentive, and considerable latitude must be allowed to individual choice.

We have swung from a state of abnormally heavy demands and activity to a state of abnormally light demands and depression, both the effects of popular impulse. It is unfortunate that in a time of full employment, good wages and general prosperity, more provision should not be made for bad times that may follow, but individuals should make such provisions for themselves. If every business man in good times would be cautious enough to accumulate reserves, and each individual in the management of his personal affairs would do the same, not only would they provide protection for themselves in periods of depression, but they would prevent the recurrence of periods of depression by giving stability to industry and to the buying power of the public. It is even more important that people shall develop character than that they shall be comfortable, and that requires that they shall exercise forethought and the resolution to care for themselves.

What our correspondent says about the amount of capital required to finance the distribution of the crops and the inability of the farmers to supply it is very pertinent to some of the elaborate plans now under consideration.

The banks cannot undertake to finance such a system of long credits, for the reason that the banks are handling funds which belong to depositors. The banks cannot undertake to pay all deposits on demand and then loan the funds for indefinite periods. For the banks to agree to allow loans to run until it suited the convenience of borrowers to pay them, would put an end to the banking business, because nobody would deposit any funds under such conditions. The funds must be loaned under conditions which insure continuous liquidation. Long term credits should be supplied by investors, who naturally will insist upon ample security to cover all possible fluctuations of the markets, with storage facilities which give protection against deterioration of the products.

## Speculation in Farm Products.

A great many farmers are convinced that their interests as producers are adversely affected by speculation in farm products, and an active campaign is on to curtail the operations of the grain and cotton exchanges, particularly the trading in futures, or making of contracts for future delivery. A summary of resolutions adopted at the recent convention of the American Farm Bureau Association says among other declarations that the farmers want more credit available for aiding production and less for aiding speculation.

Speculation has a bad name because the excesses of trading are always called by that name, while the same kind of trading carried on to a moderate and beneficial extent is not called speculation. It is called investment buying or legitimate dealing.

Are the farmers sure that at the present time they are more in need of credit to promote production than to support speculation? The cotton-growers are so intent upon reducing production that they are asking the bankers to refuse credit to all farmers who will not agree to curtail the acreage in cotton from one-third to one-half. Cotton is low because of a lack of buyers who will take it off the present market and carry it for consumption in the future. In other words, there is a lack of speculative interest in cotton, and the grains as well. The outlook for world

consumption is not sufficiently encouraging to induce investment, or speculation, whichever it may be called, and prices suffer in consequence. And not only has the speculator failed to support the markets, but it is charged that he has depressed them by selling cotton and grain short, or in other words, he has entered into contracts to deliver given quantities of these commodities at future dates, before acquiring them. The grievance against the speculator is that he has not been speculating in the desired way. It is an old story that we are prone to be impatient with people whose ideas and policies run counter to our own opinions, particularly if we think our interests are adversely affected. It is well to be on our guard against such impulses.

#### The Unavoidable Market Uncertainties.

The service of the speculator in the distribution of products is in carrying them from the time they are ready for market until they are disposed of to consumers. It is a service quite distinct from that of production. Farm products are grown and consumed all over the world, and for most of them the prices are subject to world conditions. Notwithstanding all that is said about manipulation, price movements are controlled in the main by the relations of supply and demand. The farmers as a rule wish to sell their crops soon after they are harvested, in order that they may have the use of the proceeds. Moreover, the individual farmer is too busy farming to be able to keep himself closely informed upon all the conditions that affect supply and demand, and there is more risk to him in carrying his product for a future market than there is to a dealer who makes it his business to keep posted.

Whoever carries products for a future market is taking risks, and therefore must be classed as a speculator. It is impossible to eliminate the speculative factor, because there is always uncertainty about future supplies. As late as the 1st of last June the government reports upon the progress of the cotton crop indicated a yield of only about 10,000,000 bales, and yet the crop has yielded, according to government estimate, about 13,000,000 bales, an increase over the June 1st estimate of nearly 30 per cent. The Census Bureau's latest report of ginnings shows 12,016,000 bales ginned to January 16, against 10,307,000 bales ginned to January 15, last year, and these figures are considered as bearing out the government's December estimate of the crop. A turn like that is bound to cause price fluctuations. Last year the crop was 11,521,000 bales.

A similar change took place in the winter wheat crop. Early in the spring it looked as though the wheat crop in Kansas and other Western States would be nearly a failure, but timely rains brought a remarkable recovery, and that section produced the second largest crop it ever made. On the other hand the spring wheat crop was at first very promising, but later suffered serious deterioration in quality. After the American crop was harvested, unusually good crops in Australia and Argentina had an important influence upon prices in this country as well as elsewhere, and, finally, the buying power of the countries of Europe to which the surplus of all other countries must be sold, has been an important factor in prices.

Within the last month the Canadian government estimate of the wheat crop in that country has been reduced 30,000,000 bushels below the estimate made about November 1st. It now stands at 263,000,000 bushels, while in 1919 the final estimate was 193,000,000 bushels, from a larger acreage.

Professor G. F. Warren of Cornell University, in a statement made a few days ago before the Senate Finance Committee, said:

> In the past fifty-five years there have been but three years when the combined average yields per acre of corn, oats, wheat, barley, rye and buckwheat were as high as this year. The average pounds per acre of these six grains was 1,333 this year. This is 14 per cent above last year and 14 per cent above the four-year average; 46 per cent above the drouth year of 1901.
>
> The three drouth years of 1890, 1894 and 1901 produced 920, 934 and 913 pounds respectively. If a drouth comes before the world gets readjusted it will be extremely serious, and particularly if it should be in a year when the acreages planted are low.

All of these changing influences have been affecting markets throughout the past year. The business of dealing in grain, or any product of the soil, is speculative in the same sense that the production of these commodities is speculative, i. e., it is involved in uncertainties.

#### Services of the Speculator.

Nevertheless, it is less speculative to a professional dealer, who makes it his business to be informed upon the progress of the crops over the world, the amount in store, and prospective demands, than for one who does not qualify himself in this manner. And so there have developed professional grain and cotton traders in all countries, who buy and sell these products for future delivery. They are specialists, who know the conditions and hazards of the business, as the prospector for gold or oil hidden under the surface of the earth knows the conditions and risk with which he must deal. It is a peculiarly suitable field for a specialist, and, in this as in every other case where a want exists, men are developed with special talents, training and experience to meet the need. They know how to reduce the risks to the minimum, to hedge and protect themselves in various ways so that they are protected by the law of averages.

#### Speculating vs. Gambling.

Of course it is true that a large share of the trading in futures is done by persons who have not these qualifications. Anybody may use the market facilities. No educational qualification is required, nor do would-be traders have to pass any test of intellectual development, such as were applied to enlisting soldiers, and which showed that a large percentage of the grown population has only the mental development of a fourteen-year-old boy. And so a great many people essay to speculate on the exchanges, tempted by the fact that the action is speedy, and they lose money, as they do in buying "blue sky" stock and making other investments for which they have no qualifications. The opportunities for losing money in the business world are so numerous that they will not be materially lessened by any action that can be taken relative to grain, cotton and stock exchanges, and it is unreasonable that legitimate business should be denied useful facilities because many people do not know how to use them.

There is no way of distinguishing by law between the operations of this uninformed class and those of the skillful traders. The act of buying or selling is the same whether it is the result of intelligence and careful calculation or mere gambling, whether it is with or without intent to make or take delivery.

Moreover, the expectation to make or take delivery is not an important factor in a transaction. The buyer buys because he thinks the commodity will be higher or sells because he thinks it will be lower, and his purpose is realized when a movement takes place which enables him to close out at a profit. While under contract he is under all the obligations of a buyer or seller, and must make or take delivery unless he can transfer his obligations to another.

The operations of even the gambling traders is to broaden the market, which on the whole is not to the disadvantage of the market. There is what is known as a runaway market, which is always a bull market dominated by the speculative public rather than by the well-informed professional element. The balancing and constructive force in the market is the body of well-informed traders, who come as near to knowing actual conditions as it is possible to approximate.

#### The Service of the Exchange.

The service of the Exchanges and of the traders is in providing a market at all times—not simply a market as the commodities are needed for immediate consumption, but a market that will carry a surplus and maintain fairly uniform prices, changing conditions considered, throughout the year. Every plan to eliminate transactions and narrow the market

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#### The Volume of Transac y no reaction

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continued rise was divided among four 20-yr.
taken by one, or if one-half of the fou and
dealers had profits and the other half loss
The really significant thing, from the mark %
standpoint is that so many people were interested in the market, and ready to buy or sell.

The truth is that the Chicago market is the chief hedging market for dealers and millers over the world. The trading there is related to the grain and flour business of the world, and not merely to the crops of this country.

The markets fluctuate as we have seen, because conditions are always changing, and sellers as well as buyers, farmers as well as traders, are quick to want price changes if conditions change in their favor.

It is better to have a fluctuating market than no market at all. Some of the most bitter complaints in recent months have alleged that farmers could not get a bid for their products. There have been times in the last six months when wool-growers have said there was no market for their products, which is worse than anything said of the cotton market.

#### Advantages of a Broad Market.

It is desirable to have a broad market, that is, a market in which many possible buyers are interested, which affords convenient facilities for buying and selling, and which is open and readily accessible to traders from outside any one city or country. These facilities the grain and cotton exchanges afford. They are nothing but organizations which provide meeting places for buyers and sellers, and establish rules for safe-guarding transactions. The important markets of the world are in telegraphic touch with each other, and react upon each other. Subject to transportation costs, they cannot stay long out of line with each other. It is a mistake to think that the traders act together, or in any general sense conspire to put prices up or down. In view of the number of

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is the margin between wheat and flour. A miller buys wheat today for manufacture into flour, selling wheat for future delivery; if the price of flour declines, the price of wheat will almost certainly be lower, and he will have a profit on his "short" sale that will approximately offset his loss on flour. The industry of manufacturing flour is rendered less speculative because professional speculators or dealers in futures, are willing to carry the inevitable risks that attach to the business.

It is a common thing for bankers lending money to grain dealers and flour-millers to make it a condition that all transactions shall be covered by definite contracts or hedges.

To some extent the same practice has developed in the cotton goods industry, the manufacturer protecting himself in making up goods by selling raw cotton for future delivery. If goods decline raw cotton will almost certainly decline also, and on the other hand if both goods and cotton advance, the margin between them probably will remain about the same.

**Effect of Hedging and Short-Selling.**

Every hedge sale in the central market is against a purchase, and followed by a subsequent purchase when the liquidating sale is made, provided delivery is not made on the original sale. Any one who follows the market reports from day to day will note that the buying, or removal of hedges, is often mentioned as an important factor supporting prices.

The same is true of "short" sales. The seller of grain for future delivery is under contract to deliver and must make good or suffer loss. By the terms of his contract he has obligated himself to buy if he does not already possess the quantity he is selling, a fact that seems to be overlooked by the critics of the transaction.

There is nothing inherently wrong about an engagement to sell and deliver a given quantity of any commodity at a future date, even though the seller does not possess the stated amount at the time of entering upon the contract. He undertakes to procure and deliver it, as a contractor undertakes to build a house, or supply coal, or provide food for a body of soldiers or laborers at a given date or over a period of time. He pays a sum of money or furnishes security that he will fulfill his obligation.

**The Freedom of the Markets.**

The point of the whole controversy is in the freedom of the markets. Nothing is to be gained by restricting the markets. The theory that it is necessary in order to protect the farmers from manipulation, is a mistake, for the effect will be to deprive them of markets. Their best protection is in broad, open, markets. Traders cannot be compelled to always support the markets; if they are to trade at all they must be allowed to express their judgment. The idea of abolishing the exchanges, or limiting the number of people who may trade in them, or the volume of transactions, or the kind of bona fide contracts they may make with each other for the sale and delivery of products, is calculated to destroy or limit the usefulness of market-places and impair the reliability of the market. There is safety in numbers, and always a presumption in favor of freedom as against arbitrary governmental regulation, which is seldom expert.

As a matter of fact the commodities traded in upon the exchanges have fallen no faster or farther than commodities not traded in, but have fared quite as well or better, as witness comparisons with wool, rubber, copper, rice and live stock.

The fact that in the absence of a market things do not fluctuate as much as they do in an active market is not to be taken as proving that it is better not to have a market. It is sometimes said that simple real estate mortgages are a better investment than bonds, because the quotations of the latter show a heavy decline in recent years. According to that argument any mortgage or promissory note may be better than a government bond. The latter has declined because there is a market which enables it to be sold if the owner wants to sell, and the price has declined because so many are wanting to sell. Mortgages are not quotably lower, because there is no market for them.

It is probably true that short selling was a factor in the rapid decline of wheat last fall, but the real cause was the unusual promise of the growing crops in Argentina and Australia.

That influence was bound to make itself felt and was as effective in weakening the buying side as in stimulating short-selling.

#### Stabilizing the Market.

Undoubtedly it is desirable to have the greatest possible stability in prices, and inquiry into all the conditions affecting the markets is to be encouraged, but the proposal to control the production and marketing of farm products so that a farmer will know when he plants his crop what he will get for it, and always be assured of a fair profit, will be found attended in execution by very great difficulties.

It involves disconnecting markets and prices in the United States from markets and prices in other countries, which would mean the discontinuance of agricultural export or imports, or else includes the task of stabilizing prices all over the world. The only way prices can be maintained is by standing ready to take and pay for all the commodities offered at the fixed price. It would seem to involve a regulation of the acreage in each crop, and, on account of the fluctuations in yield, large reserves in store to equalize supplies from year to year. Evidently very large capital would be required for such an undertaking, and the responsibilities of the management would be very great.

Unless the grower receives a higher price on a small crop than on a large one, he will not be assured of a profit, which seems to forbid the idea that prices can be always uniform. Again, if the farmers of one state have a good crop and those of another state a short one, it will hardly be practicable to provide a uniform profit for both at the same price. In view of the very wide variations in costs and profits, and the many reasons for them, probably the plan would not go beyond an attempt to name prices, yielding a fair average profit, but how would that be calculated? We have seen that in official calculations of costs land charges account for about one-half the total. What land values would be adopted as a basis for price fixing: those of Iowa, Oklahoma, Virginia or New York?

All of such plans seem to develop logically into guild socialism, which would divide society up into water-tight compartments, occupied by contending groups. Society is now organized almost to the point of strangulation, with the fundamental need for co-operation subordinated to efforts for class aggrandizement. The chief argument for the proposal to organize the farmers for the control of production in that line is that all the other classes are organized and farmers must be in self-defence, but there is something to be said for the preservation of individual freedom, individual initiative, individual ambition and individual responsibility. They have done something for the race in the past.

## Bond Market.

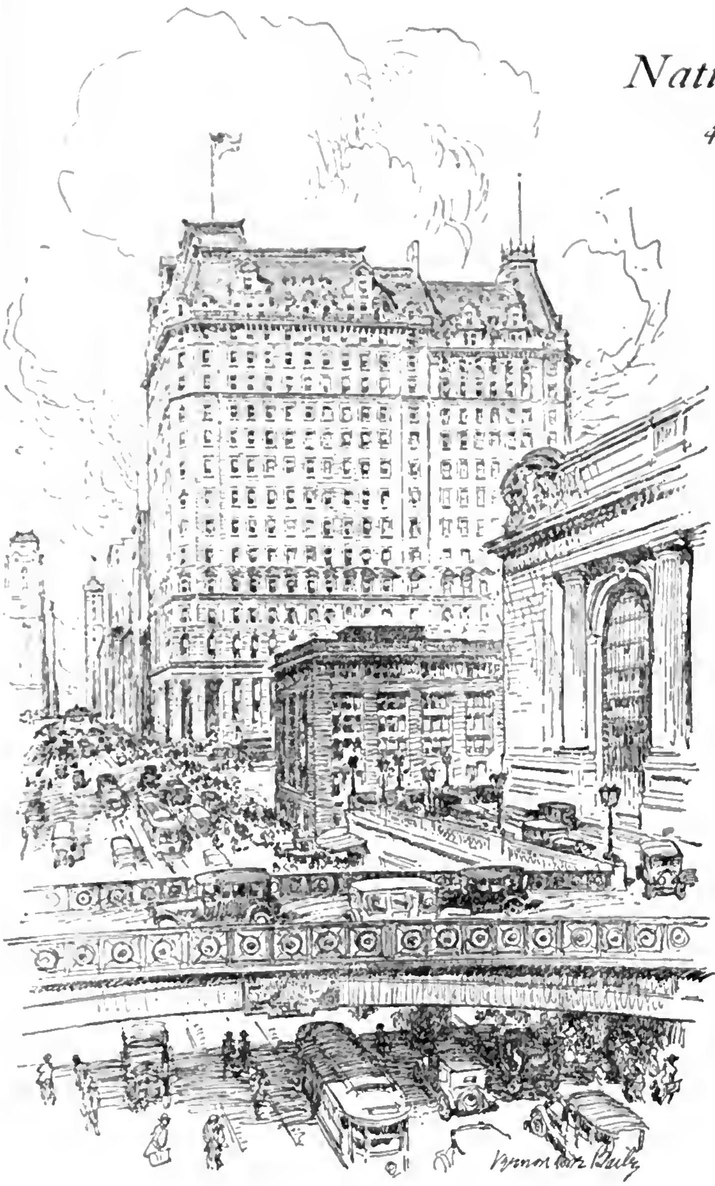
There was a distinct improvement in the bond market during the closing days of 1920, and the investment demand gained in momentum with the turn of the year. Prices of general market high-grade investment securities have advanced from 2 per cent to 5 per cent during the month, and the market has continued strong, with practically no reaction from the recent high levels.

The most impressive feature of the bond market during the month has been the quick absorption of a large number of new issues, the most important of which were:

| | |
|---|---|
| $12,000,000 | Grand Trunk Ry. of Canada 15-yr. 6½% Equipment Certificates—price 95.40, and interest, to yield 7%. |
| 30,000,000 | Northwestern Bell Telephone Co. 1st Mtge. 20-yr. 7% Bonds—price 96½ and interest, yielding 7.30%. |
| 30,000,000 | Kingdom of Belgium External Loan 20-yr. 8% Sinking Fund Gold Bonds, at par and interest, to yield 8%. |
| 30,000,000 | American Agricultural Chemical Co. 7½% 1st Refunding Mortgage Sinking Fund Gold Bonds, at 97½, to yield 7¾%. |
| 60,000,000 | Pennsylvania R. R. Co. 15-yr. 6½% Secured Gold Bonds, at 99¼, to yield 6.58%. |

Following is a list of the more important issues of municipal financing:

| | |
|---|---|
| $550,000 | Cincinnati School District, Ohio, 5% Bonds, due February 24, 1960, at 100 and interest. |
| 987,500 | City of Warren, Ohio. 5s and 6s—$687,500 5s due October 1, 1921-48; $300,000 6s due November 1, 1930—at prices to yield from 5.60% to 6%, according to maturity. |
| 500,000 | State of Oregon Serial 4½s, maturing from 1926 to 1945, at prices to yield from 5.60% to 5.10%, according to maturity. |
| 530,000 | City of Canton, Ohio, 6s, due serially from 1943 to 1959—prices to yield 5.30% basis. |
| 3,834,000 | Detroit, Mich., Serial 5¼s and 5½s, maturing 1922 to 1951—prices to yield from 6% to 5.15%, according to maturities. |
| 10,126,000 | City of Detroit, Mich., 5s, 5½s and 6s, maturing serially from 1921-50—prices 5¾ to 5.10%, according to maturity. |
| 11,455,000 | City of Chicago, Ill., 4s, due serially from 1922-39, at prices to yield from 5⅝% to 5.10%, according to maturity. |
| 500,000 | City of Akron, O., Serial 5½% Bonds, maturing 1936-51, at prices to yield 5.40% to 5.20%, according to maturity. |
| 600,000 | Portsmouth, Va., 5½% Gold Bonds, due Jan. 1, 1951. |
| 845,387 | City of Toledo, O., 6s, due 1928, at price to yield 5⅝%. |
| 5,000,000 | City of Cleveland, O., School District Serial 6s, maturing from 1 to 20 years, at prices to yield 6% to 5.30%. |
| 4,225,000 | City of Rochester, N. Y., Serial 5s, maturing from 1922-51, at prices to yield from 5.50% to 4.65%. |
| 5,000,000 | City of Philadelphia 5% Bonds, due Jan. 1, 1951, at prices to yield 4.75%. |
| 7,000,000 | State of South Dakota State Highway & Rural Credit 5½% and 6½% Bonds, maturing 1929-41 ,at prices to yield 5.70% to 5.40%, according to maturity. |
| 2,100,000 | City of Yonkers, N. Y., 5½% Bonds, maturing serially 1922 to 1961, at prices to yield 5½% to 4.90%, according to maturity. |
| 1,500,000 | City of Elizabeth, N. J., 5½% Bonds, maturing serially 1922 to 1925, at prices to yield 6% to 5.05%. |



1812

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, March, 1921.

## General Business Conditions.

THE general business situation has changed but little during the past month. In the Middle-West the movement of grain to market has continued at a moderate rate, and prices have been stronger. Receipts of cattle at the principal markets have been comparatively light, which has helped to sustain prices and they have recovered slightly. Hogs show little change. Cotton has been weak and at the close of the month was lower than at any time since 1915, when it was recovering from the great slump that followed the big crop of 1914 and the outbreak of the war. The March delivery in New York has touched 11.50, which compares with 40 cents a pound one year ago. Foreign markets are very much depressed, with Liverpool below New York. Naturally the cotton-growing section is not cheerful.

The industrial situation is mixed, the news from day to day telling of works that are closing and works that are starting up, the one class of reports apparently about balancing the other. The amount of unemployment unquestionably is very large, but the amount of distress reported is comparatively small, indicating that the wage-earners had laid by something in the day of good earnings. The volume of retail trade in the industrial cities supports this view, but trade in the rural districts is light, bank clearings are down 25 to 30 per cent from a year ago, which, however, is not very bad considering the lower prices. Railroad tonnage is off about 20 per cent from the high point in October. The number of idle cars approaches 400,000. The movement of coal, grain, oil, lumber and all the chief commodities is light. The export business in coal to Europe is dead for the time being at least, and the domestic coal trade is flat, with a good many mines on part time and keen competition among sellers.

The general trend of commodity prices has been downward and trade has continued on a hand-to-mouth basis. The shoe industry has been showing some life in specialties, but the staple lines are still very slack. Leather is practically unchanged, with tanneries operating at about 25 per cent of capacity. Calfskins are said to have dropped from $1 in August, 1919, to 14 cents. All the leather companies suffered great losses last year. Hides have weakened since January 1st under pressure in some quarters to make sales and with nobody wanting to buy. Prices made under such conditions are merely nominal and hardly can be said to constitute a market.

Wool has been a little more active, under increased operations by woolen mills, and perhaps aided by the pending tariff bill, although stocks in this country are so large that importations will not be needed very soon. Crude oil has declined rapidly since the first of the year and is down about 50 per cent. All of the metals are at the lowest level yet touched. Sugar has recovered about a cent and one-quarter per pound under the influence of an arrangement in Cuba to market the crop through a selling committee representing planters, bankers and the Cuban government. The automobile industry is showing some revival. Wage reductions are numerous and generally accepted as necessary. Building permits in 142 cities in January, as reported to Bradstreet's, aggregated $56,035,925, against $120,003,182 in January of last year.

Reports by cable to this Bank from its foreign branches and agencies indicate practically no change in conditions during the past month. In Europe there is much anxiety over the settlement of the question of reparations.

### The Textile Trades.

The cotton goods trades have had a fair amount of small business, but have not sustained the expectations that were raised soon after the first of the year, when they started off with a rush. Print cloths, sheetings, drills, etc., have lost all the gains they made then, and perhaps a little besides. The weakness in raw cotton has been a factor in the decline of goods, and on the other hand the light demand for goods has been the fundamental cause of the weakness of cotton. The latter, however, is affected not only by the situation in this country but in foreign countries. The British

**Those desiring this Letter sent them regularly will receive it without charge upon application**

markets are lifeless, due to the absence of demand from the continent, Asia, and elsewhere. The consumption of cotton during January by the mills of the United States was 366,270 bales, which compares with 294,851 bales in December and 591,921 bales in January, 1920, a decline of 38 per cent from a year ago. This probably about represents the present state of activity in the various branches of the cotton goods industry.

The most notable event in woolen goods in a long time was the opening of Fall lines of dress goods, cloakings and overcoatings by the American Woolen Company, on the 21st ult. Much interest was shown, and the prices, which were down 40 to 50 per cent from the top of last year, seem to have met the expectations of the trade and induced rather free buying. A strong bid for business was made by the offer of a guaranty against price declines up to September 1. The feeling seems to be that this policy and the manner in which it has been received has given a much-desired degree of stability in the woolen trade.

The silk trade has been much encouraged by the general interest shown in the silk exhibition held in this city during the week ended February 12, which was attended by many buyers and developed an important amount of business. The demand for silk goods has broadened and the mills are increasing production. The raw silk situation in Japan seems to be well in hand under control of the syndicate organized to stabilize it.

#### Agricultural Conditions.

The winter wheat crop is reported looking well everywhere, and the price of wheat is so much better than that of nearly every other farm product that it begins to look like the farmer's best hope.

The total exports of wheat and flour reckoned as wheat from the United States and Canada from July 1 to February 24, are reported by Bradstreet's at 303,183,559 bushels.

Only four months remain of the crop year. The price of wheat at Chicago has been ranging from about $1.60 to $1.70 per bushel for the March delivery, with premiums for spot and a discount of about 10 cents per bushel for May. The discount on futures has prevailed throughout the crop year showing the skepticism of buyers toward the theory that a shortage would develop before the next harvest.

Argentina and Australia are now the chief sources of supply for the importing countries, and their supplies appear to be ample for all demands. This country is thought to have sold about all it has to spare, and the movement to put an import duty on wheat has stimulated the movement from Canada to this country, to provide against possible needs. The world's carry-over will not be large, and as it is now quite improbable that Russia will contribute anything to the next year's supply for western Europe, and as the Argentine and Australian crops this year were much above the average of those countries, the outlook for the price of wheat from the 1921 crop would seem to be very good. Moreover, it will be produced at lower cost.

#### The Cotton Outlook.

The cotton-planting season is near at hand, and it will soon develop whether there is to be decisive curtailment of the acreage. The indications are that this time the campaign for that purpose will be more successful than heretofore. The bankers and business men of the south are lending aid to the movement in the belief that the prospect for cotton consumption over the world does not warrant the production of another full crop at this time. There is a very substantial basis for this view. The carry-over of world stocks at the end of the present crop year is likely to exceed one-half the amount of last year's crop. It is an abnormal accumulation, and with consumption the world over abnormally light, it requires a great deal of optimism to buy cotton even at the present price, assuming that another average crop is to be grown this season. The banks of the South have loaned a great deal of money to the cotton growers, which cannot be paid with the proceeds of cotton now on hand, and they are not disposed to advance money to promote the production of another full crop, which might depreciate still more the value of the stock now carried.

The cotton growers are not in funds to conduct farming operations this year in any but the simplest manner. Operations will be curtailed, fertilizers will be bought very sparingly, and the farmers will aim to grow foodstuffs for themselves and farm animals, instead of buying such supplies, as in the past. It seems very probable therefore that a substantial curtailment will be accomplished.

#### Foodstuffs Cheap at Wholesale.

All foodstuffs are selling at wholesale at prices very greatly reduced from those of a year ago. This is true of the vegetables, especially potatoes, which are practically at pre-war prices. Sugar, coffee, tea, apples, canned goods, etc., are in the same category. Butter and eggs have had a great decline in recent weeks. If everything else was down to correspond with wholesale prices of food the crisis would soon be over. Unfortunately, that is not the case, although the decline in food affords a basis for reductions in everything.

The increased freight charges bear heavily upon shipments of vegetables and fruits over long distances for the winter markets. This

is a business which has had great development since the improvement of transportation facilities. A generation or so ago the people had fruits and vegetables of local production in their season. Some idea of the present movement may be had from the following statement by the New York State Division of Foods and Markets of receipts at New York City during the week ended February 12:

30 carloads of celery, California & Florida
41 carloads of mixed vegetables, La., Fla., Cal. and 15,000 bushels of mixed vegetables from Bermuda and Cuba.
3 carloads of peas, California.
107 carloads of lettuce, California, Florida & Texas
18 carloads of tomatoes, Florida & Bahama Islands
18 carloads of pears, New York & California
47 carloads of sweet potatoes, N. J., Del., Md., & Va.
9 carloads of string beans, Florida.
56 carloads of cauliflower, California
5 carloads of turnips, Canada
3 carloads of strawberries, Florida
27 carloads of spinach, Texas
23 carloads of lemons, California
258 carloads of oranges, Florida, California
58 carloads of grape fruit, Florida
10 carloads of tangerines, Florida
7 carloads of peppers, Florida
5 carloads of eggplant, Florida
3 carloads of Romaine, Florida
41 carloads of kale, Virginia
5 carloads of beets (bunched), California & Florida
20 carloads of carrots, New York
43 carloads of cabbage, Florida, New York & South Carolina
205 carloads and 2119 bbls. Bermuda potatoes
82 carloads of onions, New York, Ind., Ohio, Mass.
257 carloads of apples, New York, Wash., Ore.

The accompanying market report says:

Wholesale prices for fruits and vegetables have gone down so low in the New York market in the last few weeks that many farmers who shipped produce here have received nothing in return but a bill for the balance of the freight. Not only have prices declined to the point where the farmer is getting little or nothing for what he produced after transportation charges are paid but even at the low wholesale prices the demand is very light.

A few examples will illustrate what the present market conditions mean to them. A grower at Sanford, Florida, shipped a carload of 400 crates of lettuce which sold here for $339.48. The freight alone amounted to $339.75, the icing charges $77.50, war tax $12.52, cartage $27.93 and commission to the receiver here $33.95. When the total expenses of $491.65 were paid, the farmer got a bill for $152.17 due the commission men.

A grower at Laredo, Texas, sent a carload of 756 bushel baskets of spinach to New York, which brought only $467.35 on the market. The freight charges alone were $627.47 and the total expenses amounted to $720.66. Another carload of spinach from Austin, Texas, sold for $262.99 less than the freight and cartage charges. Another carload of 920 baskets of spinach from Derby, Texas, sold at $1.00 a bushel and after transportation charges were paid brought the grower only $134.63 for the whole carload. Another carload from Bay City, Texas, brought the farmer nothing but a bill for $143.16 to pay the balance of the transportation and commission charges.

California growers are also hard hit by the new freight rates and low prices. For example, a shipment of 172 crates of celery that came in this week from Knightstar, California, brought only $559.00. The transportation charges amounted to $626.66, which added to the commission charges of 7 per cent made the total shipping expense $665.79. Another carload of celery from Walnut Grove, California, brought the grower a net proceed of only $55.27 for 164 crates, the freight charges alone amounting to $609.83.

It is not only the growers in distant states that are suffering big losses from the drop in prices for farm products and the high freight rates. Dozens of New York State farmers have shipped carloads of cabbage, onions, potatoes, apples, carrots and celery to the market in the last few days only to receive net returns so small as to pay little more than the cost of the containers.

### Iron and Steel.

The iron and steel industry has not reached a stable position. The United States Steel Corporation has made no move to meet the price cuts of its competitors, but its order book is being depleted and some of its subsidiaries are curtailing operations. Judge Gary has expressed the opinion that wage-earners should not be asked to take reductions greater than current reductions in the cost of living, and that price reductions would not create business at the present time. There are obvious reasons why the Corporation would not wish to be first in reducing wages or to inaugurate either wage or price reductions while it has a fairly good order book. Moreover, it must be remembered that since the Spring of 1919 the Corporation has maintained a price list much below the level of the outside market. The officials of the Steel Corporation, however, are as well aware as anybody that a general reduction of costs is imperative throughout all industry and that lower prices for iron and steel are necessary to that end. The independents have inaugurated wage reductions without any serious trouble with labor and are taking the new business at prices reported at $5 per ton or more below the Corporation's list. The amount of business going is not large, for the trade probably is not in immediate need and disposed to await further developments. Nobody thinks bottom prices have been named. Pig iron is down 25 per cent or more, around $27 and $28 per ton.

One reason given against price reductions in iron and steel is that freight charges on materials and products are very high, a complaint common among the industries, and another is that labor, even where reductions have taken place, is still much over 100 per cent above pre-war rates. Of course the railroads respond by saying that given cheaper iron, steel and labor and they will be glad to accept lower freight rates.

### The Railroad Situation.

The railroad situation is involved in a maze of complications almost as desperate as the state of international relations. There are so many powers to be consulted, so much speechmaking to be done, so much antagonism to be overcome, and such a division of authority that the proceedings are interminable. The railroad companies are trying to get into position where they will be able to exercise some effective authority in the operation of their lines. Their charges are fixed by the Interstate Commerce Commission and wage rates

are fixed by the new railroad board. The new scale of charges was designed to provide net earnings of approximately 5½ or 6 per cent upon the value of railroad property, but a great many of the roads are not making operating expenses, and the public is protesting that the rates are greater than the business of the country can bear.

It would seem to be clear that operating costs must be reduced and the railroad officials have been exerting themselves to that end. They have cut down the number of employes by 289,000 since September, 1920, but cannot touch wages without the approval of the railroad board. They are trying to get away from the system of unified rules and wage rates covering the whole country, which is a legacy of governmental administration, so that each company may deal direct with its own employes. Without ability to do this, the officials of the individual roads feel that they have little to do in the management of operations. They want to get back to piece-work wherever that is practicable, and as illustrating what they say upon that point, one railroad president states that the efficiency of the shops has fallen off one-third, and that not only will this involve a corresponding increase of the force to do the work, but that if his company is to do the work in its own shops it will have to add about 50 per cent to the capital investment.

The Erie road undertook to put into force a reduction of wages for common labor, to bring it into line with wages paid in other industries along its line, but the railroad board intervened and prevented it from going into effect.

The executives of the leading roads have not as yet submitted any request for wage reductions applying to the four brotherhoods of trainmen. They have disclaimed the purpose of doing so at present, as they wish to concentrate first upon the effort to accomplish economies by increased efficiency. The issue has been raised, however, by one of the smaller roads, which claims that it is not earning operating expenses and cannot bring its expenses within the required limits without reducing wages. The answer of the Brotherhoods is that wages are not related to finances, and that its problem should be laid before the Interstate Commerce Commission (presumably for authority to make another raise of rates) instead of to the wage board. A decision upon this case has not been given, but meanwhile the road has gone into the hands of a receiver.

A few facts stand out clearly in the railroad controversy. In the first place the railroad business must be made self-supporting; the traffic should pay charges sufficient to meet operating expenses and sustain railroad credit. In the second place, charges have gone as high as they should; the increases that have been made have not only borne heavily upon some industries, but have actually curtailed traffic, thus necessitating additional increases upon the remaining traffic. The effect of successive increases will be to localize traffic, materially reducing the volume, raising the cost and changing the location of industries. The farms located at a distance from market have been seriously affected already; the first effect falls upon them, but if production is affected it falls back upon consumers and upon the railroads. Naturally, the number of railroad employes will be affected, and employment in all the industries will be affected. It will be a process of strangulation. The action of the Railroad Wage Board is awaited with great concern.

## The Equilibrium in Industry.

No comprehensive view of the present industrial situation and of contending interests can be had without referring constantly to the fundamental principles according to which men distribute themselves in the various occupations and exchange products and services with each other. There is a Law of Equilibrium which works out a natural balance between the occupations. That balance must be sustained in order that the products or services of each group may be absorbed by all the other groups. When the balance is lost, unemployment results and continues until a redistribution is worked out, so that again everybody is at work and all the products are absorbed, a state which we call prosperity.

It is rather a blind process—this finding the equilibrium, because there is no supreme authority to tell each person where he shall go, and what he shall do, and how much he shall receive. It is up to each person to find the place where he can be useful and at the same time best satsify his own choice of work. That is the state of society under a regime of individual liberty. They are trying to do it the other way in Russia, where the Government takes it upon itself to say where each person shall go, and what he shall do, and what he shall receive. Those who think they would like this way will do well to watch for the reports from Russia, or better still go there and get the information at first hand.

It is clear that the secret of prosperity is in balanced industry, with the production of every branch of industry in proportion to the wants and buying power of the people in all the other occupations.

The number of people who can be employed in any industry depends upon the amount of the products that can be sold, and that depends upon the price which the consumers have to pay for them. If the price of a given commodity is increased the consumers will have to curtail their purchases of it or of something

else; perhaps they will distribute the curtailment, but curtailment there will be, whenever by either a rise or fall of important classes of commodities the parity of values throughout the industries is seriously disturbed.

For any commodity there is at any given time a certain price which will secure a larger net result to the producers than any other price. That is to say, if the price be lowered the additional distribution will not compensate for the sacrifice, and on the other hand, if it be raised the loss of distribution will exceed the gain in price. Everything that is offered for sale, whether it be an article of goods or the services of an individual is in competition, not only with like goods or services, but with all the multitude of attractions that are appealing to every consumer. Under these conditions it is folly on the part of an individual or group of individuals to think that he or they have it in their power to arbitrarily fix wages and prices for themselves. They may have the power to fix, and even maintain, wage-rates and prices, but they cannot escape the effect their action will have upon employment or upon sales.

#### The Great Miscalculation.

This is where occurs the great miscalculation which is tying up trade and industry at this time. Something has happened that has affected the buying power of millions of people, and other millions are trying to ignore it and think they can go on selling their own goods or services at the same rates as before. Trade is dull and millions of people are out of work because the adjustments that are necessary to restore the equilibrium are not made.

Merchants refuse to reduce the prices of goods they have in stock, and perhaps argue plausibly in justification of their policy, but trade languishes and quicker-witted competitors will replace their high-cost goods with low-cost ones and take the lead in the trade.

Wage-earners stand for the maintenance of wage-scales, and as the public is unable to buy goods made upon that level of costs, mills close down or run on half time, with a great loss of wages without corresponding reductions in the price of the product to consumers, most of whom are wage-earners.

The printers of New York City wanted more wages last fall, and a committee of well-intentioned gentlemen selected to arbitrate the case, awarded an increase by some process of reasoning which left the state of the printing business and the equilibrium between the printing business and the general business situation entirely out of the account. The result was that the wage increase, by increasing the cost of printing at a time when the public had less money to spend for printing, aggravated the situation, and resulted in a reduction of employment and of actual wage payments.

That illustrates the whole situation. It is short-sighted to be always thinking that wages can be fixed by simply an agreement between employer and employes. There is a relationship between each industry and all the other industries which must be taken into the account.

#### Another Illustration.

Here is another illustration, which shows a larger view of conditions than that taken in the printers' case. The following is a news dispatch:

UTICA, N. Y., Feb. 18.—The board of directors of the Dairymen's League, Inc., in session here to-day, recommended to all league members to sell league milk during March on a basis of $2.10 per hundred pounds for milk testing 3 per cent butter fat in the 200-210 mile freight zone.

This will result in a decline of a trifle over one cent a quart as compared with the prices current during this month. The producers will receive .0503 a quart for milk testing 3.6 per cent butter fat.

The board considered market conditions, which, it was said, are unfavorable to the producer, and set a price which, it is expected, will market a large part of the milk that ordinarily goes into the manufacture of milk products. Since October 1, 1920, condensed, evaporated and powdered milk plants have been closed, depriving the producer of a large source of distribution.

This organization of farmers was not moved by the competition of milk from outside; it undoubtedly controls the situation and may have the power to even raise the price, but it is wisely seeking to increase the consumption of milk. The members have milk to sell and they reason that the way to sell more of it is to put the price down and create a larger demand. In other words they are moving to bring the price into conformity with changed conditions and with the present purchasing power of the community. If all producers would adopt this purpose the industrial organization would be soon brought back into balance, with employment and lower living costs for all.

#### What Is Radically Wrong?

It is a common declaration in these days, uttered usually with an air of profundity, that there must be something radically wrong with society, that millions of people should be out of work, millions more unable to sell their products and millions suffering want. Since something is assumed to be radically wrong it presumably follows that something ought to be done about it, and the talkers generally are ready to do it, although the ideas of such people as to what should be done are exceedingly vague.

It is admitted that something is radically wrong. It is wrong that great numbers of people should be so ill-informed about economic affairs that instead of acting in a man-

ner calculated to secure cooperation and stability they use their influence to break down the delicately balanced industrial organization and create confusion and disorder. The modern industrial organization is dependent upon intelligent, voluntary, harmonious cooperation on the part of all the people. It requires that the people shall distribute themselves according to choice in the various industries, and so direct their individual policies as to keep the industries in balance and accomplish a ready exchange of products. If through mistaken ideas of self-interest they organize themselves into groups, either national groups, class groups, or occupational groups, and become so intent upon forwarding group interests that they lose sight of the necessity for general cooperation, the whole modern system of highly-developed industry will break down. It will be strangled by too much organization. There is indeed something radically wrong with society, and this is it.

## Money and Banking.

Very little change has taken place in the credit situation in the past month. In New York money on collateral for ninety days is from 7½ to 8 per cent; commercial paper about the same. Call money 6 to 7 per cent. Money is tight the country over, and while liquidation is going on in some lines, requirements elsewhere are increasing.

The Federal Reserve banks have continued to work into better positions, and inter-bank borrowing has come very nearly to an end. The western and southern banks have pressed rather energetically to accomplish this, with the result that a good many loans have been shifted to the eastern districts, making the progress of liquidation in the former localities appear greater than is actually the case.

Total earning assets of the twelve Reserve banks February 25 were $2,854,135,000, showing a reduction of $568,000,000 from the peak, which was touched on October 15, 1920. The total loans, discounts and investments of member banks reporting to the Federal Reserve Board on February 11, 1921, were $16,118,019,000, as compared with $16,828,278,000 on August 13, 1920, and $16,654,394,000 on February 13, 1920.

The Federal reserve system has improved its reserve percentage notably, i. e., from 43 per cent on November 5 to 49.9 per cent on February 25, but this has been largely by gains of reserve holdings, amounting to $183,261,000, of which $130,979,000 was gold. The high point of the country's gold holdings was in July, 1919, just after the embargo upon exports, was removed. The stock stood then at $3,095,077,467, from which there was a decline by exportation to $2,646,615,750 in May, 1920, and then a recovery by importations to $2,872,525,066 at the close of January, 1921.

### Slow Liquidation.

It looks as though liquidation had gone about as far as it would go for the present, if allowance is made for some degree of normal expansion during the months of Spring, when farming operations begin and construction work usually assumes greater activity. Farmers will call for less credit this year than for some years past, for they will undertake to make this year's crop on very light expenditures. A large part of the 1920 crop is still in their hands and probably is ample to meet living expenses and the necessary outlays, but it is doubtful whether there will be much net liquidation from this time on until Fall. It has been apparent for some time that the great body of indebtedness at banks could not be paid from the proceeds of the last crop. It represents unpaid subscriptions to war bonds, farm improvements in part, investments of various kinds entered into under the stimulus of booming times, and liberal expenditures when everybody was spending liberally. In industrial sections the frozen credits that represent exports are a considerable factor in the volume of loans.

### The History of War Inflation.

Every period of credit expansion and rising prices has left a legacy of indebtedness to be worked off. Every war has had an aftermath of this kind, as the wars are not paid for and out of the reckoning until the bank credit created for financing them has been extinguished and eliminated from circulation. That cannot be accomplished forthwith. It can be accomplished only by gradually building up new capital to take the place of credit, or rather to restore the old relations between capital and credit.

Patience will have to be exercised while this is going on, for the creation of great sums of new wealth, such as were expended upon the war, is not an over-night process. The restriction of credit which the Federal Reserve authorities began rather tardily to call for about a year ago, and which has been misrepresented in some quarters as a contraction of credit, was necessary in order that the wild inflation which was threatening the whole credit structure might cease. In other words, it was necessary to stop increasing liabilities faster than assets.

It is impossible, however, to check the inflation of credit without some degree of deflation resulting, for the moment it is generally understood that a rising price movement has culminated an amount of selling is sure to

occur that will turn the price movement downward. Once this occurs there is no telling how far it will go. Thus it is that although a period of inflation in the nature of things cannot run on indefinitely, and if let alone is bound to end in a disastrous collapse, any effort to check it must assume the possibility of a period of depression. The sooner that risk is taken the better. It would have been better to have checked the increase of indebtedness which began in the summer of 1919, and it would have been calamitous to have had another year of expansion at the rate we were going in the winter of 1919-20. That, however, was impossible, because conditions abroad put the effective check upon expansion in this country.

#### The Old, Old Story of Inflation and Collapse.

Every period of rising prices continued over a period of years begets carelessness about incurring debts. The more deeply people go into debt in such a time the more money they make —while the movement continues. A new crop of rich men is created, of individuals who disregard all the sound rules of doing business. Margins are reduced to next to nothing, credit is strained to the limit, because as month after month passes this policy is found to pay. Why should a speculator in stocks carry 100 shares on an ample margin when he can carry 200 shares and double his profit, and that reasoning applies generally? Salesmen, superintendents and foremen who have saved up a little money on salaries start into business for themselves, and make money rapidly, turning their profits over and over and using them as the basis of more borrowing. Everybody is pyramiding, and the situation becomes highly artificial. It is evident now that the apparent scarcity of goods about a year ago, when manufacturers were scaling orders, was largely artificial, caused by a scramble among dealers. The whole business situation at such a time becomes infested with marginal traders who have an influence in putting prices up but lack resources to withstand falling prices. Their holdings are thrown on the market at a time when the market is ill-prepared to receive them. Men have been buying farms valued at $50,000, by paying $1,000 or $2,000 down and entering into contract to pay the balance, expecting to sell out at a profit before the contract matured. For several years the game was booming, but common sense warns that that sort of performance must come to an end. It has about one "run" for each generation, and when it comes to an end a fierce demand always rises for a change in the banking or monetary system which is held to have been responsible for the trouble. All the people who have gotten into debt are sure that if credit had been on tap without limit, the boom would have kept on forever.

### International Relations.

The international situation continues to overshadow domestic trade and industry. There are no signs yet of quickening trade in Europe, Asia or South America. Stagnation is reported from all quarters, with inability to sell their own products given as the explanation for inability to make purchases. It would be the most ignorant interpretation of this state of affairs, however, to attribute it to overproduction, for it is manifestly due to a disorganization of the world's industrial system, resulting in general under-consumption.

The trade of the world has been declining. The shipping business is much depressed, suffering not only from having many ships out of commission but from the reduction of charges which naturally follows. As of February 1, 1921, the United States Shipping Board had 1,677 ships under its control, of which 978 were in active operation. At the peak of activity 170 private companies were operating ships chartered from the Board; on February 1st the number had been reduced to 129.

Of course it was to be expected that the sales of the United States and of Great Britain, the chief exporting nations, would decline, unless the countries which have been importing on so great a scale would get themselves into position to export products in exchange. It would be impossible for either country to continue indefinitely to export on credit at the rate of 1919 and 1920. It has been a mystery to everybody how the United States could pile up a trade balance in the last two years of $7,000,000,000, for after allowance for all the invisible offsets in the form of loans, security sales, shipping charges, tourists' expenditures, gifts and remittances of every kind, it is apparent that a large share of the goods must have been sold on credit. Throughout the two years the temporary and uncertain character of this trade has been constantly referred to. Nobody could tell how long it would last, but anybody could predict that it would not go on forever. It has not come to an end yet, but in some things, notably raw cotton and meat and dairy products, it has declined and the effects upon our domestic trade have been serious. In this country discussion is chiefly directed to expedients or policies by means of which it is hoped that we may get along by ourselves, no matter what becomes of the rest of the world, but nobody is quite satisfied that this can be accomplished with any great degree of success.

The problem of sustaining our export trade and of aiding other countries to effect payment for purchases in this country is bound to press upon us for consideration.

### Opinions of British Bankers.

The annual stockholders' meetings of British banking institutions for the election of directors and officers and a review of the year's business are commonly made the occasion for extended comments upon the general business situation. The addresses this year by responsible banking officials have dwelt freely with the European situation and are of great interest.

On account of the intimate relations of London to all of Europe and to the trade of the world, we think it well worth while to give our readers liberal extracts from these utterances, and suggest that they receive the careful reading to which on account of the eminence of the authorities they are entitled. They may be well borne in mind in considering our own relations to the international situation.

The Right Honorable R. McKenna, formerly Chancellor of the Exchequer, now Chairman of the Board of the London Joint City and Midland Bank, the largest bank in Great Britain, devoted his address largely to a discussion of the interest rate question, his position being practically that set forth in these columns from time to time, to-wit: that while loans were increasing and prices rising it was important to adopt measures for checking the inflation, but that with business declining and the danger of further inflation at this time passed, the policy should be of more liberal accommodations and lower interest rates as soon as conditions permit. Upon the general European situation, he said:

Our industrial organization has been built up on the basis of an immense international trade. Our plant is designed for mass production, our commercial houses adapted for business on the largest scale. The only condition under which 47 millions of people can live in these islands—not merely tolerably, but live at all—is that our output should be up to the highest level of our industrial capacity, and that the surplus of goods which we do not consume ourselves should be freely exchanged for the imported food and raw materials which are essential to our existence.

The economic restoration of Europe should today be our first concern. If we neglect it our whole foreign trade will contract and decay. The commerce of the world must be considered as one vast whole, and if a large section of it is severed from the rest what remains will be gravely impaired. If the broken countries of Europe are not restored, even the still solvent states will slip one by one into the general ruin.

A remedy must be found, and found quickly, but what remedy? I do not think there can be much doubt as to what Europe needs at the present time. She needs peace; not merely the peace of pacts and treaties, but peace borne of the spirit of peace, when the nations "shall beat their swords into ploughshares and their spears into pruning hooks." The governments of Europe have made peace, but they have not yet accepted the conditions of peace.

### Chairman of Barclay's Bank.

Mr. Frederick C. Goodenough, Chairman of Barclay's Bank, one of the five leading banking institutions of Great Britain, said, in part:

There is evidence of a gradual change which is taking place in the distribution of our trade. Our favorable balance with Continental countries for the first nine months of 1919 was £202,000,000, while our unfavorable balance with other countries was £729,000,000. This position is being gradually adjusted, and during the corresponding period of 1920 the favorable trade balance with Europe has been reduced by £64,000,000, while the adverse balance with other countries has been reduced by £278,000,000, so that, in the general adjustment of our debtor and creditor trade position, we are now better able to set off debts owing in one direction against debts owed from another.

Much has been done since the armistice towards the improvement of our foreign trade, and although we have not reached anything like our pre-war volume, still, not only are we today—as we always have been—a creditor and not a debtor nation (there have have been some popular misapprehensions upon this point), but besides this, the existing figures of the Board of Trade returns go to show that, taking our invisible as well as our visible exports into account, this country is today exporting more than it imports.

* * * * *

I feel strongly that we are now at the cross-roads so far as the outlook for industry is concerned, and that upon our choice of methods depends whether we return to prosperity via a protracted or via a short period of distress and unemployment.

The world is passing through a period of resettlement, and if we take a broad view of the situation, especially as regards assistance to distressed countries and the various complexities surrounding indemnity payments and Allied indebtedness, I see no reason why we should not quickly recover from the present stagnation. But if our outlook is to be narrow, not only will trade revival be delayed but our future will be prejudiced. We cannot afford to ignore the interdependence of nations—a more important factor now than during the period which followed the Napoleonic wars—and our aim should be the creation of what would really be a Financial League of Nations, composed of all the countries able to help. The matter is urgent, and the world cannot afford delay; our part is to show no hesitation in our readiness to take up our share of the burden.

* * * * *

Unless we can get to the root of the causes which at the present time are shutting down, partially or wholly, the markets which in pre-war times took from us many millions of our output, and again restore them to normal conditions, it would seem that a recovery in the industrial position must be very slow indeed. Until the distressed countries of Europe are started upon a fresh financial basis which is fundamentally sound, their markets will continue to remain wholly or partially closed. With their unsound currencies they can neither pay nor obtain credit, and the credit schemes which have been proposed are merely palliatives to the present situation. They will act only very slowly, and, so far as we can see, they will not provide a remedy as quickly as the disease of unsound currency will drive those countries into bankruptcy.

I feel that it will fall to this country to take a lead in these matters, because we have the knowledge and experience which is not possessed by any other country, and although giving a lead involves great responsibility it also brings with it results which will benefit the whole world.

### Is Private Enterprise Adequate?

It has been thought by some that any remedial measures had better be left to private enterprise, but that is open to this difficulty, that in many instances the risks involved are neither banking, nor insurance, nor trading risks, but they are political risks over which private enterprise can exercise no sort of control. For this reason credit cannot be forthcoming from private sources to an extent which will be adequate to do what is required, and, although a great volume of credit has already been granted to Europe since the armistice, so little progress has been achieved that it would seem that organized international action is needed before any satisfactory results can be secured.

At the root of the troubles of the distressed countries is the inability to meet expenditure out of revenue and the consequent necessity of making up the deficiency by the help of an unsound system of currency which enables paper, without a specific backing or ratio of value, to be created for the purpose of filling up the gap; if this process is to be arrested before bankruptcy supervenes international assistance is required—at all events for the smaller countries—to enable them to tide over the interval of time until they can reorganize their internal position by the adjustment of revenue and expenditure and by trade.

### Must There be General Bankruptcy?

There seems to be no other way short of a general reconstruction after bankruptcy; this would involve enormous loss of capital, followed by a long, painful and dangerous process of recovery, all of which would add to the difficulties of trade and increase the present unemployment.

If international securities were created to fill this gap some form of international control would be necessary in order that sound financial and economic principles might be insisted upon. The carrying out of such a scheme would probably involve some inflation of credit in this and other countries. Such inflation should, however, result in the re-opening of trade and is, therefore, preferable to inflation incurred as a result of trade stagnation and unemployment doles.

### The International Government Debts.

There is also the question of our own foreign debt and the debts that are owing to us by other foreign nations, and here the difficulty arises that, whereas the money we owe abroad—and it is a very large sum—is for the most part payable on demand, that which is owing to us depends for payment upon the return of those who are our debtors to a sound financial position, and this will take time. It may be that as a matter of business only it would pay us to make concessions in respect of debts owing to us by Allied Governments, provided we do not thereby prejudice our own ability to pay. We might, for instance, consider the possibility of a part cancellation of those sums lent to our Allies for the purpose of purchasing munitions in this country, while retaining their liability for those sums which in effect represent money lent to them by the United States through ourselves. Such a policy must, of course, depend upon any new agreement that may be made with regard to our debts to our Allies, but if an ordinary business man finds it to his advantage to forgive some portion of what is due to him, in order that his debtor may be put on his business legs again, we, as a nation, might find it wise to do the same with regard to the debts of our Allies. The better exchange conditions which should follow might enable a great deal of what is already owing to us on trade transactions to be paid, and this would have a tendency to remove congestion, besides giving the opportunity for fresh trade.

## Chairman of London County, Westminster and Parr's Bank.

Mr. Walter Leaf, Chairman of London County Westminster and Parr's Bank, another one of the Big Five British banks, touched upon the importance of reducing expenditures for armaments, and asked whether the allied countries were not going out of their way to assist Germany in her recovery by insisting upon her disarmament without disarming themselves. He also referred at length and emphatically to pending proposals for restricting trade by ill-advised customs tariffs. He spoke, in part, as follows:

For bankers the year has been one of incessant vigilance and great responsibility. The part which banks play in industry is, I believe, much exaggerated in popular opinion. It must always be remembered that bankers do not create wealth—it is only within very narrow limits that they can create credit. Credit is based on production and savings which increase bank deposits, the function of banks is mainly directive. They can influence in one direction or another the employment of funds which their customers place with them, but in the amount of credit of which they can dispose they are neither creators nor free agents; they are strictly limited by their own resources.

There has been during the year a certain amount of ill-informed rumor that the banks have been restricting credits. For such complaints there is no ground. I can, I am sure, venture to say that the practice of other banks has been the same as our own. Our rule has been to give credits on the most liberal scale consistent with the proper preservation of our resources. There has been no sort of agreement or understanding among the banks that advances should be restricted or rationed; we have all endeavored to deal with the situation on the most generous lines, bearing in mind particularly the claims of our smaller customers.

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### Taxation and Disarmament.

But it cannot be denied that the pressure of taxation has reached a most serious point. Whether the E. P. D. [excess profits duty] deserves all the opprobrium that has been poured upon it is a question on which I do not here enter; the trouble is that with national expenditure upon its present basis industry, in one form or another, has to be burdened with taxes up to the breaking point, and I am not sure that any other form of raising the revenue which our wastefulness requires would lead to less complaint. We even begin to hear suggestions that a forced loan on terms which would make it a disguised levy on capital, may be the best remedy. That may be the lamentable alternative if our governors do not see their way to reduce our expenditure, more especially our expenditure on armaments. I wonder if we are not going out of our way to assist Germany's recovery at our own expense when we insist on disarmament for her while not applying it to the whole world, including ourselves. To tell the truth, I see no radical remedy for the present discontent except in world-wide disarmament; it is in the League of Nations that our best hope lies.

### Credits For Trade.

The international situation is at the root of everything that most disturbs our view. A year ago I said that all depends on our getting the current of international trade once more flowing freely; but the last 12 months have seen far too little advance in that direction. No progress has been made in setting on foot the exporting power of the enfeebled nations of the Continent; in consequence their exchanges have gone from bad to worse, and our own exports are crippled. They are driven to further issues of a discredited currency, and to the process there seems at the moment to be no end.

Our endeavors are being directed to some scheme of barter in which goods can be exchanged for goods. At the moment we are discussing what is known as the Ter Meulen scheme, under which the depressed Continental countries shall make themselves responsible for the purchases of their nationals, by the issue to them of Government bonds, under the auspices of the League of Nations, which they can give in payment for the goods they buy.

Other proposals are before us. But the ultimate guarantees for all plans is the same. It is essential that all purchases made from us by foreign countries should be balanced by equivalent exports from them to us, which will enable the respective issuing countries to provide funds for the due redemption of their obligations. It is on the maintenance of this equivalent export that all schemes hang.

### Folly of Artificial Interference with Trade.

It is to me amazing that, at the very moment when these plans are before us, we should be disturbed by rumors of further proposals to hamper the free exchange of goods on which not only these schemes, but any possible hopes of restoring our own pre-war position, are entirely dependent. The fundamental

principle of international barter, which in normal times is perhaps somewhat obscured by the smooth working of the exchanges, is that "if thou wilt not buy, neither shalt thou sell." It is most distressing to find that, at the very moment when one would have thought that this maxim was forcing itself upon the intelligence of the blindest, we should hear talk about "anti-dumping," "key industries" and the like, all of which is simply a demand for hampering or even prohibiting the imports which are needed to pay for the goods of which our warehouses are at the moment full to overflowing, and for which a large part of Europe is hungering. Plainly, if legislation to this effect is passed, it will put an effective stop to the Ter Meulen scheme, or to any modification of it. It will effectually bar any prospect of an improvement in the position of the Continental exchanges. It will, moreover, by keeping up costs at home place a most powerful means of competition in all neutral countries in the hands of nations whose exchanges are at a discount, and will probably be immediately effective in crushing our foreign trade, which is surely burdened enough as it is.

It is not merely my own opinion which I am expressing. Only a few months ago there sat in Brussels a conference of all the best financial intellects of Europe. They drew up a series of resolutions showing the principles on which alone the economical restoration of the world was possible. With all their resolutions I believe that the best opinion everywhere is in agreement. The economic depression of the Continent is largely due to the artificial barriers which the new States are setting up between themselves. This we are all agreed is wrong. This is the resolution which the conference passed unanimously:

"The conference recommends that, within such limits and such time as may appear possible, each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on and discriminations of price against external trade."

### Adherence to Economic Laws.

It is recognized that one of the chief causes of the lamentable plight of Austria today is the action of the nations into which the Austrian Empire has split up in closing by tariffs the free interchange of their products. It has been for us hitherto to show other nations the better way. The prospect that we may follow their example and interfere with the free exchange of goods is one that fills me with the gravest apprehension. We have surely had enough of Government interference with trade that in this critical moment such intervention should be extended to the most vital and most delicate part of our commerce seems to me only too likely to lead to disaster.

Ladies and gentlemen, I do not wish to sit down with the word "disaster" on my lips; I do not believe that there is any need for disaster. I am convinced that, if our difficulties are allowed to work themselves out on natural lines, we can see our way through them all. But one great lesson of the war is that economic laws will have their way in the end, and that Government attempts at interference with them, if they postpone the inevitable result, only aggravate it. We have had an outcry, which has largely attained its end, for the removal of all political interference with trade and industry. Do not let us, at the moment when the removal of the last of these mischievous interventions is in sight, recur to tne bad old plan. Let us be farsighted enough to resolve that we will have no more attempts to bolster up unsound positions, and set our faces boldly to the task of working out our own salvation.

## The Settlement With Germany.

The sum fixed for Germany to pay, 226,000,-000,000 gold marks, or about $51,000,000,000, in forty-two years, would not have seemed nearly so large if stated in terms of present worth, but it is useless to calculate the present worth of a sum which by no possibility can be paid in the present. Few raise any question about the sum named except as to the ability of Germany to pay it. The war was a hideous crime for which the German government was directly responsible, and the depredations in largt part were without reason even from the standpoint of military necessity. The average payment per annum over the period is about $1,300,000,000, which is a heavy but not inconceivable burden for the productive powers of Germany to bear, assuming the German people to be united in a common purpose to sacrifice and pay. In the last five years the United States actually has exported a surplus of goods amounting to approximately $3,000,000,000 per year. Of course the level of prices is an important factor in any such undertaking. The temper and attitude of the body of a people, their resolution to accomplish a purpose and to make sacrifices for it, is an inevitable factor, and does not relate merely to the attitude they may hold toward indemnity payments. Whatever the cause may be, if people are discontented with their lot and feel that they are inadequately compensated for their labors, their efficiency is likely to be affected. It is a well-known fact that the efficiency of labor in the United States is diminished by a prevalent feeling that it is not as well paid as it should be. Such feeling is beyond control by any authority, and it is impossible to say to what extent the efficiency of a people may be thus impaired, when sacrifices are required which affect wage rates and the standard of living.

### The Exchange Problem.

The most serious problem connected with these reparation payments, however, is that of the means by which they shall be accomplished. Most people fail to take account of the difficulties which attend upon great payments to be made in another country and a different money. It will be one thing for the German government to raise by taxation and collect into its Treasury the sums required, and another thing to pay them over to the Treasuries of foreign countries. People are so accustomed to the simplicity of exchange operations in ordinary business that they do not appreciate that such operations are based at last upon trade in commodities. They do not readily grasp the fact that these payments cannot be made in German currency or in gold, but require the exportation of goods. Germany must have a surplus of exports over imports equal to the amount of the required payments, and this means that Germany must be a much larger factor in international trade than ever in the past.

#### Effects Upon World Trade.

Obviously this introduces a new element into the situation. Not only must Germany be willing to make the goods and devote them to the discharge of this obligation, but she must find a market for them. She must find countries willing to buy them, and this does not promise to be an easy task. Mr. Lloyd-George frankly says that the chief difficulty the allies encountered in coming to an agreement was that none of them wanted to admit German goods into their own market in competition with their own products. France has not been willing that Germany should undertake reconstruction work in the devastated districts, supplying labor and materials. It is said that the French residents were unwilling that this should be done. They want Germany to pay, but she can pay only in work, and for whom shall the work be done?

It is evident that this situation is bound to be an important factor in world trade. Germany must create a large balance of trade in her favor, and turn that balance over to France, which straightway raises the question, what countries are likely to buy of Germany on this scale?

#### Effects in the United States.

Newspaper comment on the other side indicates an expectation that after the terms are settled and bonds have been issued by Germany for the agreed amount, they may be sold in the United States, or German goods sold in this country to accomplish the payments. But it must be remembered that this country never has looked kindly upon heavy imports. If Europe has the latest news from Washington it knows that work has been under way for some weeks upon a new protective tariff which is understood to be one of the first things on the program of the new administration. If we are not willing to admit foreign goods to even pay the interest on the debts already due us from Europe, what is the probability that we will accept goods from Germany in payment of the reparation obligations? This does not signify deliberate refusal to co-operate for the assistance of France, but only the maintenance of a traditional policy. And if the goods cannot be sold in the United States, what is the prospect for selling them elsewhere? Will the buyers of importing countries turn from the markets of the United States and Great Britain to the markets of Germany for the purpose of aiding the latter to meet these obligations, and will the countries ambitious to increase their own exports modify their efforts in order to favor this arrangement? We ask only for the purpose of bringing out some of the difficulties of the situation. It is a situation which does not involve France and Germany alone, but all countries, and while all would like to see France receive the reparation payments, they are not unlike France in wanting Germany to make them without interfering with their trade.

#### Comments in Other Countries.

The circular letter of Samuel Montague & Co., London, of recent date, touches on this subject of reparation payments to Great Britain with this comment:

> What will be the effect on this country, and especially on individual manufacturers, if we receive large quantities of goods free? This is another circumstance brought about by the war for which we have no precedent; old-time economics pre-suppose that goods imported will be paid for by goods exported. It will be of interest to know who will fix the price of the German exports, who will pay the 12 per cent tax and to whom the goods will be consigned in this country, and who will dispose of them. It looks as though there will be more work for a "Disposals Board."

Germany's neighbors who have any manufacturing industries are all showing concern on the subject. The Netherlands Association of Manufacturers have recently passed resolutions, addressed to the Minister of the Colonies, reading in part as follows:

> We observe with great disquietude the business done by Germans in our colonies, and it is especially the metal branches which are offering their goods at very low prices. The danger is so great that our own manufacturers are driven from the field and our business will suffer irreparable injury unless quick measures of relief are taken. We apprehend a permanent shrinking of our export industries which will react unfavorably on our domestic situation.

These quotations are enough to indicate the real problem involved in the reparation payments. They make a problem in international trade because they are an abnormal factor in it, not a natural development. The French indemnity of 1870-72 of $1,000,000,000 was paid in the main through sales by the French people of foreign securities which they had owned. These securities were disposed of in foreign markets and the credits turned over to Germany and either collected gradually or invested abroad. To the extent that Germany owns property abroad, or property like ships that can be transferred, the problem is simplified, but its possessions of this class are nowhere near enough to cover the bill.

## The Emergency Tariff.

At this writing the emergency tariff bill has been agreed upon in conference. It probably will be passed and vetoed by President Wilson, but the readiness of the Congress to pass it indicates that an act along similar lines will become a law at an early date.

It is true that a protective tariff is not a new venture in this country. We have had one during most of the development period of our history, but the conditions are different from what they have been heretofore. The plat-

form of the Republican party in the last campaign distinctly recognized this fact and indicated some modification of party policy.

The industries of the country have become widely diversified, and in many lines have developed to such an extent that they are playing an important part in foreign markets, and are in a degree dependent upon such markets. The great home market for raw materials and foodstuffs, which the early advocates of protection had in their minds, has been created, and for many raw materials we are now dependent upon foreign supplies and probably always will be hereafter. It is not likely that the home production of either hides or wool will ever be a larger proportion of our consumption that it is now, no matter what import duties are levied. If this is true we have reached the point where duties upon these commodities, instead of developing home production, are simply taxes levied upon necessaries of common consumption. Moreover they are burdensome to industries like tanning and shoe making which receive raw materials from abroad and export finished products.

They are burdensome in that they increase the cost of living for wage-earners and compel wage increases which are merely compensatory, while placing the industries that are striving to do business abroad on a higher level of costs than their foreign competitors. Moreover the countries which sell hides and wool to us buy manufactures from us, and have practically no means of payment but in such products. They are sensitive about legislation affecting their products. As good merchants it behooves us to give consideration to the feelings and also the means of payment of our customers, and to manifest a friendly and reciprocal spirit toward them. They cannot trade with us without our co-operation. Trade does not mean simply selling; it means an exchange of products.

#### An Abnormal Fear of Imports.

Some of our people seem to have an abnormal fear of imports. They fail to see that imports are a necessary accompaniment of exports, and think that other countries are about to swamp us with their products when as a matter of fact those peoples are at their wit's end to find means of making payment for the goods they are buying here. We have heard much in recent months about the flood of Canadian wheat sweeping over our borders. The movement of wheat between this country and Canada for the full year 1920 consisted of 14,311,672 bushels from this country to Canada and 34,954,304 from Canada to this country.

This was the total movement, with a crop and carry-over in this country of over 900,000,000 bushels.

Moreover, throughout the year the movement from both countries to Europe was vastly greater than between them, showing that prices here were on the European market basis. Our own exports of wheat in the last six months have exceeded 200,000,000 bushels, sold in open competition with wheat from everywhere. Of course the Canadian crop has been a factor in the market. We read daily of the influence of Argentine and Australian wheat not only in foreign markets but in our own markets, although not a bushel of it comes here. What reason then is there for thinking that the importations from Canada had any greater effect than they would have had if they had gone to Liverpool? They have been a novelty, more noticeable and therefore more talked about.

There is a milling demand for the different grades of wheat for mixing purposes. The Spring wheat of the Northwestern States in 1920 was not of the best quality, and Canadian wheat has been used in connection with it. That is not to the disadvantage of our wheat growers, as it helps sustain the reputation of American flour.

#### Large and Small Considerations.

While considering the controversy over wheat we should not lose sight of the fact that our total of all exports to Canada last year was valued at $971,000,000, while Canadian exports to the United States were valued at $611,000,000. Cannot we afford to let that trade alone?

There are people alarmed about the butter industry of this country, which has an aggregate product of about 1,500,000,000 pounds per annum, because we imported in 1920 about 37,000,000 pounds. It looks to them as though Denmark, with a total production of about 230,000,000 pounds might drive us off the map. The truth is that the fluctuations of rainfall in this country have much more effect on the butter supply than all the importations. Our exports of all kinds to Denmark in 1920 were valued at $85,074,449, while the total exports of Denmark to the United States were valued at $20,573,746. Why not also let that trade alone?

In the case of Argentina our imports and exports were more nearly in balance, the former amounting to $207,776,868 and the latter to $213,725,984. We produced last year about 3,250,000,000 bushels of corn and imported all told 7,744,000 bushels of which 6,988,000 came from Argentina. The latter amount does not exceed the production of single counties in Illinois and Iowa. We bring in considerable flax-seed from Argentina, which makes linseed oil, and this is a factor in building operations, now hindered by high costs. Flax has been

grown in this country mainly as a first crop on new lands, and therefore is a diminishing product.

In trade with these countries and many others we send out goods representing higher expenditures for labor than those we receive—manufactures against natural products, and often natural products of which we have a diminishing supply. In the case of cotton goods, shoes and other things that might be named, the exports represent agricultural products plus the labor of American wage-earners, who are consumers of agricultural products. It is probable that all the agricultural products imported into this country from Canada are not sufficient to feed the wage-earners in our factories who make the goods we sell in Canada. It is a superficial view which sees the farmer's interest only as affected by imports. He is interested in the general prosperity of the country.

### Competition of Asia.

A publication of some prominence has given currency to the rather hectic declaration that the farmers of the United States would be surely reduced to a peon class unless protection was given against the products of Asia. The author of this statement seemed to be under the impression that the hundreds of millions of inhabitants of Asia had learned how to do without food themselves and had just discovered where they might dump it. And apparently he did not know that the average value per acre of all the farming lands in the United States doubled in the 10 years from 1900 to 1910 and then doubled again from 1910 to 1920, thus quadrupling in 20 years, although Asia was there all of the time.

There is a loss of all sense of proportion and of the saving sense of humor in these panicy symptoms, and some danger of appearing ridiculous. As a matter of fact the real farmers know better, as is evidenced by the fact that farming lands are even now changing hands at prices close to the top. The farmers of mature years have been through such experiences before, and have not forgotten the time when they were told that agriculture was ruined forever without the free coinage of silver at 16 to 1.

### A Fair Exchange Is No Robbery.

It scarcely accords with the dignity of a country whose wealth is so great in comparison, and which has suffered relatively so little from a world calamity, to be so disturbed over some of the incidental effects of the world-wide disorganization, and so regardless of how its efforts to escape them may increase the general disorder. The world, admittedly, is full of selfishness, and we may be allowed to have our share, but it ought at least to be an intelligent selfishness. This is a world situation and we have more to gain by aiding the restoration of order than by increasing the confusion.

We ought to remember when we hear the alarming stories of impending imports that other peoples are merely trying to trade with us, to give something of their production for something of our production, or to pay us for something they have already had. The low exchange rates are given as a reason for imposing higher duties, but to a great extent they are due to a state of trade that is one-sided in our favor. The exchange rates are abnormal largely because the state of trade is abnormal, and we may doubt the wisdom of taking steps to keep the state of trade abnormal. The whole situation will right itself with a great deal more certainty if let alone than if the law-making authorities of all countries muddle with it. If the balance of trade turns against us, exchange rates will turn against other countries under the same influences which now set them against us.

## Silver.

The course of silver since the decline began last Spring has been a great disappointment to producers. They had counted upon the Pittman act as assuring at least $1 per ounce for the metal until the United States government had replaced the silver dollars melted and exported under that act. It seemed reasonable to expect that with the entire production of the United States taken off the market, the remainder of the world's production would command at least the price fixed for the American product. The outpouring of old silver coins from the countries of Europe where paper has taken the place of all metallic currency, has been the most unexpected development, but the unprecedented reversal of the trade relations between India and the rest of the world has been another. It has been customary for India to have a trade balance in her favor on merchandise account, which was settled in silver. In 1920 its exports fell off to such an extent that the balance turned over, and India actually exported both silver and gold.

The United States Government under the Pittman act is required to buy all the silver of domestic production that may be offered at $1 per ounce until the entire amount, about 203,000 ounces, sold under the Pittman act is replaced. About 37,000,000 ounces have been purchased to this time and as this bullion is a dead asset until converted into dollar pieces, coinage has been recently commenced. Meanwhile the price in New York of silver produced outside of the United States is about 55 cents per ounce. That is all that is paid for the metal by the manufacturers of silver ware.

The whole story of silver is a ludicrous illustration of the management of governmental affairs. The silver hoard in the Treasury was originally bought in an effort to maintain a double standard of value, which proved a failure. The value of the amount of silver contained in a silver dollar declined to 50 cents and lower, but the dollar pieces and paper certificates representing them were held at par by the guarantees of the Government. The certificates would have circulated at par on these guarantees without any silver pieces behind them.

Comparatively few silver dollars were in circulation, the public preferring the certificates. When this country entered the war, there was pressing need for silver with which to pay the immense trade balance owing to India both by Great Britain and the United States. Silver is the common currency of India; the people there are not familiar with paper money and distrust it. The only stock of silver within reach consisted of the silver dollars in the United States Treasury, which might be released by substituting Federal Reserve notes for silver certificates in circulation. In order to do this, however, it was necessary to obtain the authority of Congress, and to get it promptly. The price of silver was rapidly advancing and the silver producers of this country were averse to releasing the Treasury hoard, which threatened to not only check the advance but perhaps break the market. Opposition to the proposal developed, and a compromise was effected by which the Treasury was directed to re-purchase the amount sold, at \$1 per ounce, the selling price being \$1.01½ cents, the 1½ cents being intended to cover incidental expenses. With this provision agreed to the opposition was withdrawn and the bill went through without opposition.

Of course the re-purchase of this silver and re-coinage of the dollar pieces is an absurdity, a repetition with full knowledge of a mistake made when the country was floundering with the silver question. But the Pittman act would have to be repealed to give the Secretary of the Treasury a free hand, and in view of the conditions under which the act was passed it is probable that many members of Congress who voted for it do not feel at liberty to favor repeal.

There is another development which makes the situation more serious to the silver producers. The high price of silver caused several countries to alter their coinage laws, substituting nickel for silver to a greater extent than formerly. Thus the silver coins of Great Britain as made in the future instead of having eleven-twelfths of their composition of silver and the remainder copper, will be only one-half silver and the remainder nickel and copper.

## Marketing Facts.

We referred last month to the vast amount of misinformation that is current about matters concerning which it is quite possible to obtain the facts by taking a little trouble, and particularly about the market value of farm products at different seasons of the year. Reviewing market conditions since 1913 the Wall Street Journal finds the facts as to cotton and wheat to have been as follows:

In October and November, 1913, the average price of cotton was 14.1 cents. The average for the following May and June showed no speculative profit as it was 13.3 cents. The average for the crop sales in 1914 was 14 cents, and for May and June, 1915, it showed the speculator a loss of more than 4 cents. In the same periods of 1915-16 there was a small profit, about paying warehouse charges and interest. This was larger in the season 1916-17, and there was a real profit in 1917-18, as between 27.2 cents and 31.6 cents.

But in the season 1918-19 there was a loss of the difference between 32.8 cents and 30.5 cents, to say nothing of the carrying cost. Only on the average between October and November, 1919, and May-June, 1920, would the speculator's profit have been worth the gamble in a rise of from 35.5 cents to 43.5 cents. If he bought cotton last October, "to take advantage of the farmer," he is now facing a heavy loss.

And there was nothing like a certainty for the gambler in wheat. He would have lost money between October, 1913, and June, 1914, after paying carrying charges. He would have done well in 1914-15 and have made a substantial profit in 1916-17, coming out even in 1915-16, losing money in 1917-18 and in 1918-19, and making some of it back in 1919-20. If he had bought the farmer's wheat at the average of October-November last year, he would be facing a loss sufficient to wipe out all he had made in the good years and to double the losses he had made in the bad ones.

According to business experience if there was a certainty that any of the farm staples would be worth enough more in the Spring months than Fall months to pay the cost of carrying them and a good margin, capital would flow naturally into the investment. This fact creates a strong presumption that there is no certainty of profit in the venture, and that on the average the profit is not unduly large.

## Heavy Losses.

A long story of industrial and mercantile losses suffered in 1920 might be made up from the reports of companies which by reason of the fact that their stocks and securities are widely held by the public are under obligations to publish the results of the year's business. Perhaps it would be well to have this information distributed in sections of the country where many people are laboring under the impression that the "big interests" brought on the fall of prices and have profited by it at the expense of farmers and small dealers.

Among the big interests the railroads always have been pre-eminent, upon the theory that they are owned in Wall Street, which of course is far from being true. Nevertheless, the railroads are generally regarded as typical

of "big interests," and so it will be well for those who are jealous of such interests to note that the decline of traffic has cost them about all that they might have gained by the advance of charges which they were allowed last summer. Senator Kellogg, of Minnesota, in a speech in the Senate a few days ago stated that the consolidated net earnings of the roads in September last amounted to 4.1 per cent upon the value of railroad property as fixed by the Interstate Commission; in October to 4.6 per cent; in November to 3.3 per cent and in December to 1.1 per cent; an average for the four months of about 3.3 per cent. He stated that the Commission and the companies both realized that it was impossible to make rates that under present conditions would yield the return contemplated by the Esch-Cummins law.

Another section of the "big interests" is included in the five leading companies of the meat packing industry, to wit: Armour, Swift, Morris, Cudahy and Wilson.

With an aggregate capital investment of $600,000,000 and aggregate sales of about $3,000,000,000, these companies in a consolidated statement would show no net earnings last year. Losses exceeded profits, and if the statements included the leather companies affiliated with them the showing would be much worse. The Armour Leather Company had a net loss for the year ended October 31, 1920, of $4,313,653.

The American Cotton Oil Company, another company dealing with a product of the farms, for the year ended August 31, 1920, showed a loss of $3,611,560, against a profit in the previous year of $422,814.

In mentioning the packing companies we ought not to overlook the Equity Cooperative Packing Company of Fargo, North Dakota, which was promoted for the avowed purpose of keeping the profits of the packing business at home and among the farmers. Stock to the amount of $2,250,000 was disposed of, and about $600,000 of the proceeds absorbed by the promoters. The company, however, got into business in time to lose, it is reported, about $800,000 of what was left.

We referred two months ago to the heavy losses that dealers were taking upon butter in storage. The situation not only has shown no improvement but grown much worse. The bulk of the winter butter supply went into storage at about 55 cents per pound, and has been coming out all the way down to 35 cents, from which there has been a recovery of 7 or 8 cents. Eggs have gone in the same way, falling from about 70 cents to 35, from which there has been a recovery of 4 or 5 cents. Millions of dollars have been lost by dealers in butter and eggs, the mild winter being an important factor in the result. Nobody could foresee when butter and eggs were stored eight or ten months ago that cows would give milk and hens lay eggs at the rate they have kept it up all winter.

The Quaker Oats Company, which in 1919 had net profits of $2,679,394, reports for 1920 a net loss on operations and depreciation of inventory of $5,824,925.

The Central Leather Company, one of the big leather companies, which began the year 1912 with assets of $146,855,102, closed the year with a net loss on operations and depreciation of $22.428,214.

Montgomery, Ward & Co., of Chicago, one of the oldest and best known of the mail order houses, which made $4,194,170 in 1919, sold $101,000,000 of goods in 1920 and closed its books for the year with a net loss of $7,855,278.

If a summary of the whole business situation could be made it would probably be found that nobody is in better position to stand the stress of adverse times than the farmer who used the profits of good years to improve his farm and pay his debts and who has followed a steady and consistent policy of diversified agriculture.

**THE NATIONAL CITY BANK OF NEW YORK**

THE NATIONAL CITY BANK OF NEW YORK

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, April, 1921.

## General Business Conditions.

THE mild Winter has been followed by an early Spring and with the revival of outdoor operations there are symptoms of improvement in business, although they are not sufficiently pronounced to justify sanguine predictions. Retail trade continues surprisingly good in the cities, and wholesale distribution is very fair, considering the low prices of farm products and the amount of unemployment reported. Payments through banks reporting to the Federal Reserve Board and passing through the Clearing Houses are running 20 to 25 per cent lower than a year ago, which is not so great a decrease as might be expected in view of the decline of prices. The index number of commodity prices compiled by the Bureau of Labor for February last was 33 per cent below that of February, 1920. Current payments, of course, do not accurately represent current business, and considering the amount of unemployment at this time, it must be concluded that they are holding up better than production. For the last week of February the car-loadings reported by the railroads aggregated 658,222 as against 783,295 in the corresponding week of last year. For the month of February the cotton mills consumed 385,563 bales of raw material, against 515,599 bales in February, 1920, and 366,270 bales in January, 1921. The production of bituminous coal for the week ended March 12, 1921, was 6,891,000 tons, against 10,277,000 tons in the week ended March 14, 1920. Pig iron production in February, 1921, was 1,937,000 tons, against 2,978,879 in February, 1920, and 2,940,168 in February, 1919. The output of bee-hive coke for the year to the middle of March was 2,257,000 tons, against 4,527,000 tons in the corresponding period of last year. Exports of merchandise for February, 1921, were $489,310,942, against $645,145,225 in February, 1920; imports of merchandise, $214,525,137, against $467,402,320 in corresponding month of last year. Business failures in January and February, 1921, numbered 3,505, with liabilities of $138,334,990, against 937 in number with liabilities of $21,462,271 in the corresponding months of last year. Building permits in 156 cities, as reported by Bradstreet's, aggregated in value $140,507,319 in the first two months of 1921, against $234,941,100 in the corresponding months of 1920.

### The Hopeful Signs.

The above figures do not show a pleasing state of affairs, but they only show what everybody knows, that we are passing through a period of depression, and when we take into account the state of business over the world, and the heavy fall in the prices of our staple products, there is reason for congratulation that conditions are no worse. The movement of goods in retail trade makes a better showing than any other feature of the situation, indicating reserve buying power and that commodity stocks are being reduced. There is not the amount of distress that might have been expected from so much unemployment, nor the number of business failures that might be expected following so severe a depreciation of values. The most encouraging circumstance is the fact that the readjustment of wages and prices which is necessary to a general revival of industry is steadily progressing, and without a serious amount of friction.

One of the notable incidents of the month was the agreement between the meat-packers and their employes, by which the latter accepted a moderate reduction of wages. A compromise was brought about by negotiations in Washington in which the Secretaries of Agriculture, Commerce and Labor participated. The labor leaders yielded to representation by these officials to the effect that in view of the decline in cost of living and particularly the decline in prices of the live stock which these operatives were handling, packing house wages ought to come down. Packing house wages went up approximately 100 per cent during the war, and so did live stock and packing house products, but during the last year cattle, hogs and sheep have fallen nearly to pre-war prices; indeed, when freight rates are taken into the account, the producer in many instances receives less than pre-war

prices, although his costs are all higher. Meats have been reduced, and by-products, such as hides, are below pre-war prices. The price which the farmer gets for his live stock and the prices which the working millions must pay for meats are affected by the cost of converting live stock into meats. It is more than a question between the packing house workmen and their employers; the packing house workmen are middle men between the farmers and the consumers; moreover, they are consumers themselves, not only of meats but of the products of other industries. The money in which their wages are paid is simply a convenient medium by which their services are measured against the services of the farmers in producing food and the workers in all the industries producing goods which they consume. Their real pay comes in the goods which their wages buy, and in that sense their pay has been increasing rapidly in recent months, and is greater after these reductions than it was at any time last year. Their pay is larger in proportion to the value of the products they handle than it ever was before.

Fair play requires that the compensation of workers in all industries shall rise or fall together. Moreover, when it does, employment is not disturbed; the workers are still able to buy each other's products; but when that balance is disturbed and any class of people suffers a severe loss of income, business quickly becomes bad in the other industries and many workers are thrown out of employment.

A fair readjustment of wages in the packing industry means help toward the general readjustment which must be accomplished before there will be employment for everybodv again.

**Wage Reductions a Condition of Industrial Revival.**

It is a not uncommon remark that employers are taking advantage of the state of depression and unemployment to force wage-reductions. It is an ill-advised comment, calculated to cause bad feeling and indicates a want of understanding of the actual requirements of the situation. The fact is that depression and unemployment exist because the industrial situation is out of balance, and there is no remedy except by such readjustment of wages and prices as will restore the balance and enable the various industries to exchange products on a fair basis. It is impossible when one-half the people of the country have lost approximately one-half their purchasing power for the other half of the people to go on without taking note of it. The depreciation of money which resulted from the war was not a natural or permanent development. Nothing of the kind has ever happened without a readjustment afterward, and it is always the case that the sooner that adjustment is accomplished, so that normal relations are restored between the industries, the better for everybody.

It is of no advantage to the workers in any industry to have costs maintained upon a level which prevents the sale of their products. Somebody must have the sagacity to attempt a restoration of the conditions under which an exchange of products is possible. The compensation of workers in the various branches of industry—which means their purchasing power—must be brought back into equilibrium. Whether it will take a long time or only a short time depends upon the rapidity with which the public comprehends the situation, and remarks of the kind referred to do not promote an understanding.

**Building Operations.**

There is opportunity for a vast amount of house building over the country which would give employment to thousands of skilled mechanics in the building operations and many thousands more in all the building material industries, and which would bring about a general reduction of rents and improvement in living conditions. Such a revival of house-building would quicken all the trades and industries and go far in tiding this country over the period of depression which the world is bound to experience until Europe recovers from its state of prostration. But there will be no general revival of house-building upon the present level of costs, because the public cannot pay rents upon that level of costs. And that is only one of the dislocations which must be overcome before there can be a general revival of industry.

It is said in opposition to wage and price reductions that the full decline in raw materials and foodstuffs has not been reflected in retail prices. Of course it has not, when at every step between the producer and consumer an obstruction is raised. Cotton cloth does not reflect the full decline of raw cotton, because mill wages, rents, freight charges, price of coal, and other charges which enter into the cost of making cloth, all of which consist for the most part of labor, have not been reduced correspondingly. There will be no loss to labor in bringing them all down together; on the contrary, labor will be the chief gainer, through lower living costs, full employment and stable conditions.

## Agricultural Conditions.

The Winter wheat crop is showing a record condition, and at this time promises a larger yield than last year. Favorable reports also come from European crops. The acreage of the latter is increased and condition is generally favorable. Rumania's crop is reported as

likely to be 80 per cent of pre-war yield. The price in our markets has been working lower, the May delivery selling at the close of March about 20 cents per bushel lower than at the beginning of that month.

The Winter is over and only three months remain of the crop year. The situation which last October was the subject of much controversy is to a great extent cleared up. An active agitation was going on at that time for the purpose of pledging the farmers to hold their wheat for $3 per bushel, and in some quarters it was confidently predicted that a shortage would develop this Spring. The stocks of wheat in this country on March 1st, according to the Bureau of Crop Estimates, aggregated about 320,000,000 bushels. The requirements of the country to July 1 for consumption and seed are estimated at 200,000,000 bushels, leaving 120,000,000 bushels for export and carry-over. World stocks are not large, but there is enough to go around and little desire anywhere to speculate on conditions in the next crop year. Trading in the July delivery, first of the new crop year, began in Chicago on the 28th at $1.25 per bushel.

Millers have had a hard year, working constantly upon a falling market. Dealers in flour have bought only for the immediate trade, and it has been a constant source of wonderment that their purchases have been so light. The mills have run at not more than one-half their capacity since the break in prices occurred, indicating that there were large stocks of flour in the country.

The stocks of corn and oats in the country are the largest on record. These grains have lost about 5 cents per bushel off the price since March 1st.

### Butter and Eggs

The storage stocks of butter have been worked down to a low point, but it has been a losing year for the operators. Prices are about where they were a month ago, and represent a loss of about 20 cents per pound upon the stored supply. The egg dealers did very well on the stocks put into storage in the Spring months of 1920, and which were closed out early in the Winter, but they have been punished on recent purchases. Eggs have been accumulating and have dropped steadily from 71 cents per dozen to 26 cents, which is the price ruling at this time. The Spring crop of eggs is coming in, and will go into storage about 20 cents per dozen lower than last year.

### Cotton and Woolen Trades

Raw cotton firmed up about a cent a pound in the latter part of last month, notwithstanding an official report showing that ginnings to March 21 had amounted to 13,197,775 bales, against the Government's December estimate on the crop of 12,987,000 bales. The 1920 crop thus turns out the second largest on record. The price was helped by better buying from Liverpool, where the feeling about the goods trade was said to be a little better. There was talk that the trade agreement with Russia would help some, and the prompt transmission of this effect to the American market afforded a striking illustration of the relation which all markets bear to each other. If England sells cotton goods anywhere this market will be benefited.

From the result of a questionnaire sent out in Georgia it appears that approximately one-half of the 1920 cotton crop of the State is still in farmers' hands. The general opinion now in the South is that the acreage in cotton will be reduced as much as 30 per cent.

## The Textile Industries.

The Easter trade in cotton goods was good and there was a rally of 5/8 to 3/4 of a cent per yard in wholesale prices, which checked buying, as every such attempt has done. The cotton goods trade continues from hand to mouth. The trade in lightweight underwear has been very good, but little is doing in the heavyweights for Fall delivery.

Woolen goods for Fall delivery have been selling very well at the reduced prices, although the clothing industry is only moderately active. It affords another illustration of the necessity for wage readjustments. The producers of cotton and wool are receiving less than one-half as much for these materials as one year ago, the employes of the cotton and woolen mills where the cloth is manufactured have taken a wage reduction of 22½ per cent in New England and more in some sections of the country. The clothing trades are highly organized and are standing out against any wage reductions. Wages are very much higher in relation to the present price of raw materials than ever before. The farmers who produce the wool and cotton are obliged to pay prices for clothing that under the circumstances are unfair to them, and that is true of all the workers who have accepted reductions. The result is that the sale of clothing has fallen off, and although the clothing operatives are maintaining their wage-scales large numbers of them are out of work. Actual earnings in the industry are less than they would be at lower wage rates and a general state of employment.

### A British Forecast

Mr. James Nesmith, a British expert in the cotton trade has recently expressed himself upon the future as follows:

> Five-sevenths of our Lancashire cotton goods business, for example, is for export account. And that industry today is idle about five-sevenths of the time. Yet we feel the bottom of the world trade depression has been seen, and that recovery is near.

Providing of credits and better productive effort in all countries will give the new stimulus. Human needs will supply the demand.

I look, in fact, for another wave of inflation to set in soon, though less violent than the last. I agree with the theory that a leading British banker recently expressed to me—that the world will see about seven years of recurring peaks and valleys in activity and prices, with each fluctuation less than the last, until stability is reached.

The same prophecy was made to me by a British industrial leader as early as 1916, with the time limit put at ten years. In our own industry, for example, despite today's depression, I venture to assert that the world will find itself before long actually short of textile machinery equipment.

## The Metal Industries.

The iron and steel industry is operating at about 35 or 40 per cent of capacity. Prices continue to be shaded, pig iron of some grades selling under $25. The demand for structural steel is restricted by the high cost of everything, including steel, and especially the high wages in the building trades. Railroad consumption is restricted because practically the entire income of the roads is absorbed in paying the wages of their employes and for coal. Iron and steel are still high-priced, for one reason because wages in the industry are more than 100 per cent above pre-war rates, and for another reason because railroad charges are so high. The advent of Spring has given a start to the automobile industry, which has increased the demand for steel in that quarter. The demand from agricultural implement makers is light, because the farmers are not in position to buy implements on the present level of costs, and the International Harvester Company is both laying off employes and reducing wages.

This illustrates the hardships which the process of readjustment involves when it proceeds in this halting way, with many industries and many traders holding back. It is a hardship for workmen to have their wages cut and their time cut simultaneously, but a time cut alone accomplishes nothing in reducing costs. It is a hardship for workmen to be out of work entirely, and it entails loss to the whole community. It is a hardship for workmen who have taken wage reductions to have to pay full war-time charges for having their clothes or shoes made, or for railroad or street car service. It is a hardship to have goods at retail remain high when producers' and wholesalers' prices have fallen. Everybody who is insisting upon the old wages or prices for himself while accepting cheaper service from others is delaying the revival of prosperity.

The demand for copper is light and the metal is selling at about 12 cents per pound, which is below the cost of production for most of the mines. Of course there is a great amount of unemployment in the mining districts. The outlet for copper is in building operations. Lead is at 4 cents per pound in New York, which means considerably less to the western producers than before the war, because of the increase of freight charges. A curious fact about the lead market is that it is unfavorably affected by the artificial price which the government is paying for silver under the Pittman act. Silver and lead are produced in large quantities together, and the silver-lead properties continue in operation for the profits on silver after the profits on lead have disappeared. It furnishes another illustration of how governmental interference in behalf of one industry usually results in injury to some other industry.

## Foreign Trade Situation.

The foreign trade situation has not changed for the better in the past month. In one respect the European situation may be said to be reassuring. As time passes the menace of general revolution and social disorder is less threatening. Few people now think there is any probability of the Bolsheviki overrunning Europe or that anything more socialistic than a mild type of state-ownership is possible. Hundreds of representatives of labor organizations from all the countries of Europe have been in Russia to see the workings of the Soviet system, and their reports are not favorable. Europe is getting tired of disorder and short rations, and beginning to appreciate that production must go before distribution and consumption.

The unachieved settlement with Germany is the great obstacle to recovery in Europe. Allied troops have marched into Germany, but Lloyd-George admits that this gets nowhere, and that it is impracticable to occupy the country. It has been proposed that British purchasers of German goods shall be required to pay one-half the value to the British government, receiving a receipt which may be transmitted to the German creditor together with a payment of an equal amount in cash, the German creditor to present the British government receipt to his own government for reimbursement. The German government has not assented to the plan, and unless it does the prospect is for a heavy falling off of trade between the two countries. The natural result would seem to be a shift of trade, so that each country will trade more with other countries and less with the other.

The most hopeful development has been the appearance of declarations by several prominent people in France in favor of accepting the the proposal by Germany offering to undertake the task of restoring the devastated territory. The head of the French labor organizations, whose position corresponds to that of Mr. Gompers in the American Federation of Labor, has given out a statement in favor of this plan, saying that he is convinced

that it is sound policy. He says that he is advised that with the available labor in France it will take 40 years to complete the restoration. On the other hand the head official of the German labor unions has given out an interview in which he says that the German labor organizations acknowledge that there is an obligation upon Germany to make reparation and that they will support the government in undertaking to rebuild the ruined towns, roads, etc.

This would seem to offer a feasible approach to a settlement. The German government can supply building materials of German production and send German workmen into France to do the work, making payment in German currency, and that is practically the only way it can pay for having the work done. We pointed out last month that in order for Germany to pay in the usual manner she would have to build up trade balances equal to the annual indemnity payments, by selling unheard of quantities of exports, and that there were no countries willing to receive such quantities of goods. The consummation of the payments in this manner therefore depends not alone upon Germany's willingness and ability, but upon the attitude of other countries toward German goods. Moreover, it depends very largely upon the attitude of the United States, as one of the most important trading nations, and it would be contrary to the historic policy of this country to permit Germany to build up a great trade balance here. It seems to be quite practicable for the nations receiving reparation payments from Germany to collect them directly in goods or services and altogether reasonable that preference shall be given to this method which will make the minimum disturbance with trade and industry everywhere.

### Situation in South America.

The business situation in South America remains decidedly unfavorable to trade. Quantities of American goods lie at all the ports unaccepted and of course unpaid for, millions of dollars in adjusted accounts are uncollected, because existing exchange rates would impose ruinous losses, and of course new business is very light. The worst of it is that there is no apparent prospect of early improvement. South America is accustomed to sell her products to Europe and the United States, and the former is buying very little, for the obvious reason that she cannot pay. America also is buying comparatively little, because she has all of the wool, hides, etc., that she requires for the present. Our markets are overloaded with them and the Congress is busily engaged in devising ways and means for discouraging further importations of such commodities.

### European Food Conditions

Mr. McCurdy, Food Controller for Great Britain, made a speech in London recently which was reported as follows, in part:

> The depression of the exchanges as between Great Britain and America was, in Mr. McCurdy's view, due more to European conditions than to anything which it was in the power of Great Britain to remedy. Europe was in many senses one economic whole, and so long as the food position was not remedied and so long as purchases of foodstuffs were made at these terrible rates of exchange, we should continue to feel the effects.
>
> The agriculturists of Europe were producing £500,000,000 less wealth this year than they were doing in the year before the war, and that meant a reduction in the purchasing power of Europe on such a scale that the reduction exceeded the total exports of this country into Europe in the most favorable year before the war.

### Foreign Exchange Rates

The table of exchange rates is as follows:

| | Unit Value | Rate in cents Mar. 28 | Rate in cents Feb. 25 | Change from par | Depreciation |
|---|---|---|---|---|---|
| Canada ...... | 1.00 | .88 | .8800 | .12 | 12% |
| Germany .. | .2382 | .0160 | .0160 | .2222 | 93 |
| Italy .......... | .1930 | .0398 | .0362 | .1532 | 79 |
| Belgium .... | .1930 | .0725 | .0743 | .1205 | 62 |
| France ...... | .1930 | .0693 | .0710 | .1237 | 64 |
| England .... | 4.8665 | 3.92 | 3.86 | 0.9465 | 19 |
| Switzerland | .1930 | .1722 | .1650 | .0208 | 10 |
| Holland .... | .4020 | .3445 | .3404 | .0575 | 14 |
| Denmark .... | .2680 | .1745 | .1808 | .0935 | 34 |
| Norway ...... | .2680 | .1610 | .1735 | .1070 | 40 |
| Sweden ...... | .2680 | .2320 | .2227 | .0360 | 13 |
| Spain .......... | .1930 | .1400 | .1388 | .0530 | 27 |
| Argentine .. | .9648 | .77 | .7962 | .1948 | 20 |
| Japan .......... | .4985 | .4825 | .4785 | .0160 | 3 |

## North Dakota Politics.

There has been more politics to the square mile in North Dakota in recent years than in any other part of the country. The state was moderately excited in the years when the Non-Partisan League was forming and fighting its way to control of the state government, but its attacks were directed mainly at such distant and impersonal enemies as Wall Street, the Minneapolis Chamber of Commerce, Big Business and the Money Power; but since the League actually came into power and began to do things the fight has developed into a hand-to-hand, knock-down and drag-out affair at home, and largely between factions within the Non-Partisan camp. There is less lambasting of far-away foes, except by way of emphasizing the necessity of suppressing dissenters at home.

Of late a story has come forth of the good old type, telling that the Money Power was attempting to strangle the New Freedom movement in North Dakota by refusing to buy $6,000,000 of North Dakota state bonds which had been offered in eastern markets, except upon the condition that the League program of state-owned industries was abandoned. We will give some attention to this

charge further on, but the situation will be better understood if a little of recent North Dakota history is given first.

#### Origin of the Non-Partisan League.

Our readers no doubt are familiar with the fact that the Non-Partisan League developed from a belief on the part of many farmers of North Dakota that they were victims of sharp practice at the hands of the grain exchange of the Minneapolis Chamber of Commerce, particularly in the manipulation of grades. It is unnecessary to go at length into the merits of that controversy, but we will go so far as to say on the one hand that the farmers no doubt were sincere in their belief, and on the other hand that the evidence has not been convincing to unprejudiced inquirers, and that in our opinion it is incredible that the Minneapolis Chamber of Commerce has countenanced unfair and irregular methods. It is quite possible that there may be individual members of the grain exchange who would not be above sharp practice, but that the exchange as a body would adopt rules of practice of that kind is unbelievable.

#### The Mixing Practice.

The charge is based upon the mixing practice. Any market where grain is received from many localities and of varying qualities affords an opportunity for profitable mixing, with the result that the quantities of the several grades shipped out will not be the same as the quantities of the same grades received. It is frequently advantageous to mix grain of a high-grade with grain of low-grade to improve the value of the latter. The mills do it to get the gluten content they want in their flour, and the grain dealers do it to improve the market value of the grain passing through their hands. A grain grade does not represent an exact quality; there are variations within a grade. Mixing, therefore, is inevitable, and because inevitable a recognized practice. It does not follow, however, because "No. 1 hard" is mixed with a lower grade in Minneapolis that the producer of either the former or the latter is defrauded. The value of "No. 1 hard" for mixing purposes counts in the market price and causes it to bring a higher price than it would for pure milling purposes. Likewise the fact that the lower grades may be raised by mixing counts in their market value. The practice, however, obviously is likely to be misunderstood and misrepresented

#### The Demand for Terminal Elevators.

Whatever one's views may be as to the above, the people of North Dakota wanted terminal elevators at Minneapolis or Duluth, owned by the State of North Dakota, to handle North Dakota grain, and in 1912, when the proposition was submitted to an election, for the purpose of amending the constitution to permit such an investment of State funds, they voted 56,488 to 18,854 in favor of the proposition. Two years later another vote was taken upon the proposition to authorize and empower the General Assembly to provide for the erection, purchase or lease, and operation of one or more terminal elevators within the State of North Dakota, with a similar result.

The General Assemblies of North Dakota following these elections were unfavorable to both enterprises, and although recognizing that they had been given authority to provide for elevators did not consider themselves bound to do so, and did not do so. Subsequent events indicate that, even though the projects did not appeal to their judgment, it would have been better policy for them to have complied with the manifest wish of the people of the State. Even if the results proved disappointing the demonstration would have been cheaper than the experiences that have followed. There is a very old saying that the proof of a pudding is in the eating, and the world gets most of its authentic knowledge by trying experiments.

The Non-Partisan League was organized and swept the State, electing the Governor and other State officers and both branches of the General Assembly. Then followed legislation providing for raising money by means of bond issues, the organization of the Bank of North Dakota to aid in financing the various enterprises contemplated, the construction of grain elevators, flour mills, and various acts calculated to establish the power of the League in the State.

#### The Non-Partisan Split.

It was not until January 1, 1917, that the League was in full control, and before long serious dissensions within its ranks had developed. In December, 1919, what is known as the "anti-liar's act" was passed making it a felony for "any State official to wilfully publish false statements with reference to any State department, institution or industry," which was significant of the state of feeling at that time existing in the brotherhood of State officials. When the election of 1920 came around the disaffection was so great that the lower house of the legislature was lost to the League, and a referendum initiated by petition, seriously restricting the operations of the Bank of North Dakota, was adopted.

Among the active leaders in the farmers' movement which eventually took the form of the Non-Partisan League was William Langer, who at the very first convention of the League was endorsed by it for Attorney-General of the State, elected, and after serving one term was again endorsed by the League and re-

elected. He held the office until January 1, 1921. Mr. Langer seems to have been an earnest advocate of the original policies for which the League was organized, but he was not a Socialist and he soon became suspicious of Townley, the master spirit of the League organization, broke with Townley, Frazier and the other leaders of that group, and led an uncompromising revolt against them.

Mr. Langer wrote and published a book last year in which he gave his reasons for this course. In the first place he was disgusted to find himself in a bunch of radicals, to whom the avowed objects of the farmers' movement were only incidental. He considered that the great body of voters who had supported the League had been misled, and said:

The farmers' program called for certain definite economic changes. The farmer wanted to get a fair, honest price for his wheat and other grain—he wanted to pay only his just share of taxes, he wanted a state-operated hail insurance law and he wanted rural credit banks operated at cost—that was their program—not Debs, or Mills, or O'Hare or Roylance or any horde of imperial Socialists!

The North Dakota farmer is progressive. He wanted those things because they spelled progress for him, but the farmers of North Dakota are neither anarchists, atheists, free lovers, nor I. W. W.'s.

Before proceeding with his account of the administration of State affairs by the League, he refers to the "anti-liar's law," and invites attention to his position as follows:

I am writing this book in North Dakota. I am the Attorney-General of the State. Under the terms of the "anti-liar's" act, the full text of which you will find in succeeding pages, if, in dealing with the institutions, departments, or industries of the State government, I make one single statement in this book which is not true, I can be placed in the penitentiary for one year. This ought to satisfy my worst enemy, adversary, or evil wisher.

**The Scandinavian-American Bank.**

He gives a full account of the relations of League leaders with the Scandinavian-American Bank of Fargo, an institution organized under the State banking act, with a capital of $50,000, surplus of $10,000, and a little more than $800,000 of deposits, which seems to have loaned money to them and their enterprises in a most reckless manner. Their relations with this bank began before the Bank of North Dakota, the State-owned institution was started, but he charges that the latter institution backed the former up with loans. It will be remembered that the Scandinavian-American Bank was closed by a bank examiner in October, 1919, the examiner being supported in his action by Mr. Langer, who as Attorney-General was a member of the State Banking Board, but the examiner was dismissed from the State service for his officiousness and the bank was reopened through the influence of the Governor and with the aid of an opinion of the Supreme Court of North Dakota, holding that post-dated checks held in its assets, which it had received from the League, should be counted as good resources. It was reported at the time that considerable new capital had been subscribed, but the bank finally went into the hands of a receiver February 14, 1921.

Mr. Langer goes into this Scandinavian-American bank case with much detail, and makes a showing that reflects very seriously upon the State administration. He shows that in 1918 the bank guaranty law went into effect in the State, and that under the original law the Governor was obliged to appoint three members of a Commission for its administration from a list of names submitted by the State Bankers' Association. The Governor did not control the Commission, but its Secretary was the State Examiner of Banks, appointed by the Governor. In order to come under the protection of the Guaranty Law, it was necessary that the Scandinavian-American Bank should pass an examination. While this examination was being made the following remarkable letter, written by an assistant in the office of the State Examiner, was sent, suggesting how the bank might trick the Commission by getting rid temporarily of bad paper through the aid of other League banks which had already passed their examinations:

Bismarck, N. D., June 10, 1918.

Mr. J. J. Hastings, Vice-President,
Scandinavian-American Bank,
Fargo, N. D.

Dear Mr. Hastings:

Mr. Waters submitted to an operation at the hospital here today. While the operation was not serious yet he is not very well and will be laid up for a while. This is the reason that you and Mr. Semingson were not able to get him over the phone.

He has asked me to write you regarding the extra help you have at your bank just now making an examination. He has been sick since last Thursday, or he would have headed the thing off. Being that Mr. Schroegge, Mr. Semingson and Mr. Halldorson are there now to make an examination on behalf of the commission, he does not care to create any animosity and antagonism over this matter at this time, and get as good report for them as possible, so that they won't have anything to hand the opposition parties over league finances and business methods, or criticize the amount of paper carried there. It appears quite evident that this is a political play for thunder. You see the opposition parties are a little short on real sensational thunder, and they are trying to scare up something for the last act, and I don't suppose the other banks in Fargo are just what you would term "crazy about you." Mr. Waters wishes me to advise that if the examiners object to any of the paper carried there, you are to tell them that it will be removed at once. The plan of taking care of objectionable matter is to shoot it out to the other league banks—Grand Forks, Hillsboro, Buxton, Hatton—these banks are practically all new banks, and have been passed by the commission which will leave them in a position to do this. They would not have anything that the commission would object to just now. Anything that you sent them could be taken back later if necessary. Of course, we don't want to move any more than is absolutely necessary, to get by with a clean report. Mr. Waters is satisfied that with this information, you and Mr. Semingson will be able to handle this matter satisfactorily to all.

If anything further develops, kindly write me.

Very truly yours,

Roy M. Halliday.

A little more than a year later the Scandinavian-American Bank was examined again, at the instance of Mr. Langer and another member of the State Banking Board. Mr. Langer says of its condition as then recorded:

For a year and a half in violation of the State Banking Laws, the Scandinavian-American Bank had been engaged in wild-catting, kiting accounts, in making excess loans. Under the State law this bank could not loan more than $9,000 to any concern, person or corporation. Yet in violation of this law they made the following loans:

| | |
|---|---|
| Consumers United Stores Co. | $170,000.00 |
| National Non-Partisan League | 148,824.26 |
| League Exchange | 66,182.00 |
| Publisher's Natl.-Service Bureau | 47,950.00 |
| H. G. Hagerty | 47,088.00 |
| H. E. Knaack | 23,000.00 |
| A. M. Grosvenor (T. Allen Box line) | 29,426.33 |
| Porter Kimball | 15,066.57 |
| United States Sisal Trust | 12,000.00 |
| O. K. Hanson (Dir. of S.-A. Bank) | 16,847.89 |
| P. R. Sherman (Cash. of S.-A. Bank) | 12,998.50 |
| H. J. Hagen (Pres. of S.-A. Bank) | 10,060.97 |
| | $599,444.52 |

The Scandinavian-American Bank has a capital of $50,000.00 and a surplus of $10,000.00, making $60,000.00. Yet they loaned Townley and his associates nearly a half million dollars. Townley and his followers got a bunch of boys, non-residents, employees and clerks and attempted illegally to circumvent the law. The correspondence which I have shows that these signers were "dummies" and that Townley and his associates got the money.

### Post-Dated Checks.

Commenting upon the decision of the Supreme Court of North Dakota that the post-dated checks were acceptable as good bank assets, Mr. Langer says:

Three members of our Supreme Court, Bronson, Grace and Robinson, have held that post dated checks are excellent security. I should like to see some farmers try to buy Bronson's, Grace's or Robinson's land on this excellent security, to-wit, post dated checks given by men living in Texas, Oklahoma, Wisconsin, Iowa, Kansas, South Dakota, Montana, Idaho, Washington, Oregon or Colorado, these checks being given by men whom they did not know, that they had not seen, who might not own property, and some of the checks over a year past due. There is not a farmer in North Dakota who would sell his farm for that kind of paper. These checks in the amounts of six, nine, sixteen, eighteen, thirty-two or one hundred dollars would be of small value if you had to hire a lawyer and pay him for his services in collecting them.

### The Promotion of Waters.

When the Bank of North Dakota, owned by the State, was organized in 1919, J. R. Waters, who had been State Examiner, and who had directed the sending of the letter of advice to the Scandinavian-American Bank quoted above, was made president. Of his qualifications for the place Mr. Langer says:

J. R. Waters, whom Governor Frazier and the Commissioner of Agriculture and Labor, Mr. Hagen, appointed to manage the Bank, had never run a bank in his life. Before coming to North Dakota from Iowa he ran a livery stable. In North Dakota, the Governor appointed him bank examiner at the request of the "gang." Waters knew no more about the banking business than a ten-year old child reared in New York City would know about raising oranges in California.

We have not the space to go at length into other charges brought by Mr. Langer against the leaders of the Non-Partisan League and the State administration. He shows up the State publications act, under which a State official names an official newspaper in every county in which all official publications, including those of county officers, must be made, the object being to cut off income from anti-league newspapers and to build up league papers. Of the power of this organized publicity system in the politics of the State the Attorney-General wrote:

There is hardly a man living in North Dakota, no matter how honest, square and upright he may be, who can withstand attacks from the socialist crew with their large gang of newspapers, back of which is the money derived from the county printing in nearly every county in the state. In addition to that they have the enormous amount of money collected in the organization of the United Consumers Stores Company, ninety per cent of which they can use for "educational purposes." J. W. Brinton whom they are now seeking to discredit testified that he alone collected one million and one hundred thousand dollars from farmers in the Consumers United Stores Company, and time and time again I have heard Townley ridicule the farmers for being "damn fools" enough to pay $100 for the privilege of trading at a store they paid for.* This is the kind of an outfit which is in control of the State of North Dakota, posing as farmers' friends, when as a matter of fact they are their enemies.

He charges that the Bank of North Dakota is run as a political institution, granting and denying favors as such. He charges that breaches of trust on the part of public officials and other gross crimes have been condoned when committed by members of the league, giving names and particulars. He asserts that the State administration is extravagant and that the tax levy for all purposes was increased from $1,572,255.46 in 1918 to $3,800,000 in 1919.

### Comments by the Chief Justice of the Supreme Court.

The Chief Justice of the Supreme Court of North Dakota, Judge Robinson, who was elected by the Non-Partisan League and has participated in some of the decisions criticized by Attorney-General Langer, has joined lately the ranks of the critics. In some parts of the country it would be considered unusual for the Chief Justice of the Supreme Court of a State to volunteer for publication a statement sharply criticizing the General Assembly and branches of the Executive Government, but the interchange of opinion in North Dakota at this time is highly informal, and in some respects very instructive. The situation recalls the famous editorial written by William Allen White some years ago, upon "What's the Matter with Kansas"?

* The United Consumers Stores Company, operating 37 stores and sales agencies in North Dakota, went into voluntary bankruptcy, March 15, 1921.

Chief Justice Robinson describes the situation of the Bank of North Dakota in graphic language, as follows:

> On our Ship of State there is a modern Jonah—the state bank.
>
> The lord has sent out a great wind and there is a mighty tempest in the sea so that the ship is likely to be broken unless Jonah be thrown overboard. The same Jonah, without any means of his own ,has posed as a banker and gotten into his coffers all the public monies from every county and every corner of the state. He has put a large part of the money into long time loans on land, into the coffers of bankers and parties that will never repay, and into buildings, mills and elevators. Now the depositors demand their money and there is no repayment.
>
> Jonah is several millions short and he will neither fish, cut bait, nor go ashore, so the chances are that he will have to be thrown into the sea; but in the treasury department there appears to be a tame whale with capacity sufficient to swallow and liquidate Jonah.

The Chief Justice confirms all that the Attorney-General of the State has written about the increase of taxation. Upon this subject, with a reference to the reverse suffered by the League at the election last year, he says:

> The people look to their solons for some relief from the robber taxes which have been levied during the past three years. Most people do not like to be robbed. Under the laws of 1919 the assessments and taxes have been marked up to three times those of any former year. At a special session of the solons in 1920, after the special election in Towner county, the League solons lacked only one senator of having a majority of two to one in each house. Then there was a demand to reduce by 50 per cent the unjust taxes of 1919, but there was only a reduction of 25 per cent from the state taxes. The result is that at the present session the League solons have no majority.

The Chief Justice denounces not only the excessive assessments but the new State income tax and a system of license taxes which has been inaugurated. He says about these:

> A person having a constitutional right to live must have a right to obtain the means of living—a right to work, eat, drink, sleep and use the toilet without paying a tax. The tax system of 1919 must pull down and send to grass any person who stands for it. Excessive taxation is robbery and it has always been the greatest curse of every state and nation.

### The Bank of North Dakota.

The Bank of North Dakota was designed to be the financial agency for carrying out the League program of State-owned industries, State loans on real estate, etc., and to insure the financial independence of the State, free from the domination of Wall Street, the Money Power, et al. Deposits in the Bank are obligations of the State of North Dakota. The capital was to be $2,000,000, supplied by the sale of State bonds. The bonds were turned over to the Bank but have not been sold. The capital therefore is not available for banking purposes. In order to provide the Bank with funds, all public monies, belonging to counties, municipalities, school districts or any sub-divisions of the State, were required by law to be kept on deposit with it. The local banks organized under the State banking system were required to keep reserves with it; in short it was to be a central bank and reserve bank for the State, independent of the Federal Reserve system. The total deposits of the Bank at the close of June, 1920, were $26,500,000.

The deposits were largely re-deposited with local banks about the State, although substantial balances were kept in central cities outside the State. With the growth of dissatisfaction last year a measure was proposed by petition, under the act providing for the system of initiative and referendum, repealing that portion of the State Bank act which required the treasurers of local subdivisions of the government to keep public funds with the Bank, and this measure was carried at the election last November. This change seriously impaired the whole plan, for it deprived the Bank of a large part of the funds with which it was expected to do business. Moreover, it involved a withdrawal of re-deposits in local banks and of funds placed in investments from which in some instances they could not be readily withdrawn. The situation has been made more difficult by the fall in prices of farm products, which greatly reduced the value of last year's crops and also made the farmers disinclined to sell and caused money to be very tight within the State. Undoubtedly it has been an unfavorable time to shift deposits, and the embarrassment of the Bank has been increased by this fact. A large number of small banks have had to suspend payments. The Bank of North Dakota will meet all its obligations eventually no doubt, for it has the State of North Dakota behind it, but if it was required to meet them as other banks are expected to do it would have to close.

### An Erroneous Plan.

The plan of making the State of North Dakota a self-contained unit financially was fundamentally erroneous. A well-balanced bank is one that serves so many different kinds of business that all its patrons are not calling upon it for help at the same time. A bank, as we have often pointed out, is not a source of wealth in itself; it is a reservoir and clearing house for the community that it serves. The whole theory of banking is based upon the assumption that normally about as many people will be wanting to put money into a bank as to draw money out. Some lines of business and some localities will need credit at certain seasons while in other lines and other places the demand will fall most heavily at other seasons. The service of a banking system is to make idle funds available where they are wanted. A single bank with an office in one town accomplishes this in a degree, a bank which serves a larger area of territory and a greater variety of business accomplishes it in a larger degree.

while banks that have customers in many lines of business, and in all parts of the country and in foreign countries accomplish it in still greater degree.

When the Federal Reserve system was organized the idea of regional independence was urged very strongly and the first thought was to make the twelve banks absolutely independent of each other. This policy was opposed, and some of the individuals who opposed it have been since falsely represented as opposing the whole measure. Fortunately in the last days of consideration the change was made giving the Federal Reserve Board authority to require one reserve bank to re-discount for another, an amendment which practically unified the system and broadened the base under every bank.

The State of North Dakota is mainly devoted to one industry, agriculture, and largely to one crop. Money is easy or tight in all localities of the State at one and the same time. For this reason the State does not make a well-balanced economic or financial unit in itself. Moreover, North Dakota is a comparatively new State; it has always used outside capital to its advantage and can continue to do so. The idea of corralling all the loose funds at the capital of the State, and of getting along without aid from outside was a mistake.

### Conditions in Past Six Months.

As a matter of fact the banks of North Dakota during the past six months have borrowed heavily from the Reserve bank at Minneapolis, of funds deposited with it by the banks of other states, and also very heavily of correspondent banks in Minneapolis, St. Paul, Chicago and New York. The Reserve bank of Minneapolis also borrowed largely of the Reserve banks of the East, so that the resources of many states have been drawn upon for the assistance of the farmers of North Dakota.

These funds, as already stated, belong in the last analysis to individual depositors throughout these states, and when these depositors, in the course of their own business, wanted to use them, and the banks which originally held them called upon the Reserve banks and the banks of North Dakota for them, a great protest went up that the banking system of the country was oppressing the farmers of North Dakota. Other sections also, which were actually using large amounts of capital belonging elsewhere but placed at their disposal temporarily by means of the country's interlocked banking system, have made similar complaints, all due to a want of understanding of fundamental banking principles—to a mistaken idea that banking institutions can be organized to create credit and that credit can be made to take the place of capital to almost any desired extent. The whole conception is erroneous and every attempt to put it into effect results in trouble.

### Difference Between Fixed Capital and Liquid Capital.

There is a difference between the credit to which a man is entitled on the strength of owning a farm or a block of buildings and that to which he is entitled on the strength of owning grain or another commodity ready for market, and whenever these two classes of credit are confused trouble is likely to ensue. Credit of the first class is a slow credit; the property may be good, but possibly cannot be converted into money at any definite time. The second class of credit usually can be promptly converted and therefore is the only kind suitable as security for advances by a bank which must keep itself in position to pay depositors on demand. It must be always remembered that the first duty of a banker is to pay his depositors when they want their money. The borrower ought to understand that the banker's first duty is to the depositor. The banker is a middleman, between the depositor and borrower. The latter has a right to the funds for the length of time agreed upon when he executes his note, and for not a day longer if the depositor then wants them. The banking business is based upon this principle. Deposits are obtained upon this understanding. Deposits are the basis of modern banking; without deposits the whole banking service would disappear, and if depositors could not count on getting their money when they wanted it deposits would not be forthcoming. It is of interest to the borrowing public, therefore, that there be a clear understanding upon this point.

### The North Dakota Bond Issues.

After the foregoing extracts from Mr. Langer's book it should not be necessary to say much in explanation of why North Dakota bonds have not found a ready market. An issue of $6,200,000 was advertised, bids to be opened on December 15, 1920. It is reported that there were no bids. The amount is not so large that the State of North Dakota would need to look to Wall Street or the Money Power in the sense in which that term is commonly used. There are hundreds of bond houses over the country able to handle an issue like that, if it is of a kind that appeals to the average investor. To suppose that there was a general conspiracy to defeat this sale is ridiculous.

A representative of the State government came to New York City to sell the bonds. He was courteously received, given information and advice about possible buyers, in good faith: He spent some days in this city, went to Boston and probably other Eastern cities. So far

as we are advised nobody here made any proposition to him based upon an abandonment of any part of the Non-Partisan League program. The fact is that the parties concerned seem to enormously exaggerate the interest of the outside public in that program. State ownership and operation of industries have been tried before and few people believe that North Dakota is going to reverse all past experience. As a rule it is safe to say that the people who do not believe in the practicability of state operations in industry would rather see the North Dakota undertakings go through to a full trial than have them break down at this stage. The people of North Dakota certainly have a right to make the proposed experiments if they want to, but the right of an investor to make his own choice between North Dakota bonds and South Dakota bonds, or some other investment, is likewise above question. The government of South Dakota has a rural credits department which lends money direct to farmers on land mortgages, and is selling its state bonds for that purpose without any trouble.

#### Why the Bonds Do Not Sell.

The fundamental reason why the North Dakota bonds are not being readily sold, is that bankers are afraid they cannot sell them. Investment bankers buy bonds in the capacity of merchants, to sell again. They try to buy issues that they think will be popular with the public. They do not think the news coming out of North Dakota about the administration of the State government, the financial policies of the State, the increase of taxation and the general state of politics in the State, as reported by Mr. William Langer and others, is calculated to make a good market for the bonds.

Nobody doubts the solvency of the State of North Dakota, or the integrity of the great body of its citizens. These bonds are said to have been passed upon by the Supreme Court of the State, and presumably are valid, but there is evidence that the affairs of the State are not being well managed. People are not quite sure what the policies of the present State authorities might be if they should be retained in power. It has been pointed out that the sinking fund in which is to be annually accumulated the sums for the payment of the principal as it falls due is to be in the custody of the Bank of North Dakota, and that the bank has power to lend it to the departments of state that are conducting State industries. Naturally people ask, what kind of a sinking fund is that? Where will it be sunken when it is needed, and what provision will there be for its replacement?

Then there is sometimes a natural indisposition to do business even though the security offered is in itself unobjectionable. When a smooth salesman gets the signature of a farmer to a promissory note in exchange for a patent right or a block of doubtful stock and offers the note at a neighboring bank at a tempting discount, it is a doubtful purchase even though the name is above question. Bankers' associations throughout the country have passed resolutions urging that such purchases be not made.

We do not attack the government of North Dakota or even the officials who at present are managing it. We make no statements concerning them upon our own responsibility. The quotations given above are in the language of the man who was twice elected Attorney-General of North Dakota by the votes of the Non-Partisan League and of the present Chief Justice of the Supreme Court, also supported by the League, and since there is an interest in knowing why North Dakota bonds have not sold readily their statements are offered in explanation.

### Federal Land Banks.

The Supreme Court of the United States has sustained the constitutionality of the Federal Farm Loan Act, and expressly that part of it which exempts the land banks and the securities issued by them and all income derived from such securities, from Federal, State and local taxation. The exemption was based upon a declaration contained in the act that "first mortgages executed to Federal land banks or to joint stock land banks and farm loan bonds issued under the provisions of this act shall be deemed to be instrumentalities of the Government of the United States." The act authorizes the Secretary of the Treasury to use both types of land banks as "fiscal agencies," for the deposit of public funds, sale of government bonds, etc.

The complaint alleged that the declaration that the banks were instrumentalities of the Government was only a pretext; that in fact they were not intended to be so used in any important sense, were not so needed, had not been so employed, and that the real purpose was simply to exempt a certain class of property from taxation, which in itself was not a lawful purpose.

The Supreme Court in its decision, which was unanimous except that Justice Brandeis did not participate in the case, planted itself squarely upon the opinion of Chief Justice John Marshall in the great cases, McCullough v. Maryland and Osborn v. Bank, in which the Court upheld the right of Congress to grant a charter to the Bank of the United States.

This is one of the great Marshall opinions, in which he gave a broad interpretation to the powers conferred upon the Congress, holding that it had authority to use such means

as in its judgment were deemed appropriate to carry on the functions of government. The Court in the present case says:

That the formation of the bank was required in the judgment of the Congress for the fiscal operations of the Government, was a principal consideration upon which Chief Justice Marshall rested the authority to create the bank; and for that purpose being an appropriate measure in the judgment of the Congress, it was held not to be within the authority of the court to question the conclusion reached by the legislative branch of the Government.

Referring to the authority given to the Secretary of the Treasury in the land bank act to use the land banks as depositaries of public monies, the Court says:

It is said that the power to designate these banks as such depositaries has not been exercised by the Government, and that the Federal Land Banks have acted as Federal agents only in the case of loans of money for seed purposes made in the summer of 1918, to which we have already referred. But the existence of the power under the Constitution is not determined by the extent of the exercise of the authority conferred under it. Congress declared it necessary to create these fiscal agencies, and to make them authorized depositaries of public money. Its power to do so is no longer open to question.

But, it is urged, the attempt to create these Federal agencies, and to make these banks fiscal agents and public depositaries of the Government, is but a pretext. But nothing is better settled by the decisions f this court than when Congress acts within the limits of its constitutional authority, it is not the province of the judicial branch of the Government to question its motives.

### The Power to Tax is Power to Destroy.

As to the exemption from taxation, the Court says:

That the Federal Government can, if it sees fit to do so, exempt such securities from taxation, seems obvious upon the clearest principles. But, it is said to be an invasion of state authority to extend the tax exemption so as to restrain the power of the state. Of a similar contention made in McCullough v. Maryland, Chief Justice Marshall uttered his often quoted statement: "That the power to tax involves the power to destroy; that the power to destroy may defeat and render useless the power to create; that there is a plain repugnance, in conferring on one government a power to control the constitutional measures of another, which other, with respect to those very measures, is declared to be supreme over that which exerts the control, are propositions not to be denied." 4 Wheaton 431.

The same principle has been recognized in the National Bank Cases declaring the power of the States to tax the property and franchises of national banks only to the extent authorized by the laws of Congress. Owensboro Nat. Bank v. Owensboro, 173 U. S. 60, 64, involved the validity of a franchise tax in Kentucky on national banks. In that case this court declared (pp. 668, 669) that the States were wholly without power to levy any tax directly or indirectly upon national banks, their property, assets or franchises, except so far as the permissive legislation of Congress allowed such taxation; and the court declared that the right granted to tax the real estate of such banks, and the shares in the names of the shareholders, constituted the extent of the permission given by Congress, and any tax beyond these was declared to be void.

The exercise of such taxing power by the States might be so used as to hamper and destroy the exercise of authority conferred by Congress, and this justifies the exemption. If the States can tax these bonds they may destroy the means provided for obtaining the necessary funds for the future operation of the banks. With the wisdom and policy of this legislation we have nothing to do. Ours is only the function of ascertaining whether Congress in the creation of the banks, and in exempting these securities from taxation, Federal and State, has acted within the limits of its constitutional authority.

This opinion, which again defines the relations between the judicial and legislative functions of the Government, has a lesson for the thoughtless people who charge the judiciary with encroaching upon the powers of the Congress. The Supreme Court does not question the discretion of the Congress when legislating within the field where the constitution gives it authority. If the Congress says that the Secretary of the Treasury requires the assistance of land banks in managing the fiscal affairs of the Government the courts will accept that declaration.

### A Doubtful Policy.

Accepting the decision of the Court as to the authority of the Congress as sound, we have the express permission of the Court to question the wisdom of the exemption policy. There is serious reason for questioning it in the fact that measures are now pending before committees of Congress to provide loans upon dwelling houses in cities and upon personal credits, the funds to be provided by the sale of tax-exempt securities. Under this decision the pressure for such legislation will be redoubled.

Moreover, the idea spreads to state legislatures. Measures are pending before several of them for exempting not only mortgages upon dwelling house property, but dwelling-house property itself from taxation.

There is no stopping place once legislation of this character is approved. Agriculture is a fundamental industry, but agriculture itself is dependent upon transportation and is seriously affected just now by the increase of transportation charges. Yet, somehow, the cost of operating the railroads must be met and the capital invested in roads must earn a fair return, or the roads will deteriorate. Why not, then, exempt from taxation all railroad securities and the income derived from them?

### All Exemptions Wrong.

As a general rule tax exemptions are unjustifiable. There always have been certain exemptions,. some of small importance, and others with some degree of justification, but they are especially objectionable in the case of taxes upon incomes and where the taxes are graduated with the purpose of making large incomes pay higher rates than small. The exemptions defeat that purpose, because the large taxpayer gets the same immunity as the small. If the amount of tax exempt securities on the market was small, not enough to supply the wants of the large tax-payers, there might be competition among this class for them with the result that the benefits would go to the borrowers by way of lower

interest rates; but the amount of the securities is already so large that there is an ample supply for the large tax-payers without such competition. Persons of even moderate incomes are finding it worth while to buy the tax exempt securities, and of course those of large incomes find a large saving in doing so. Five per cent to the large tax-payer free of all taxation means that he is gaining more by the exemption than the borrower is gaining by the reduction of the interest rate.

#### Somebody Pays for the Exemptions.

There is no escaping the grim fact that Federal, State, municipal and local taxes are destined to remain very heavy and every exemption makes them heavier for the people who have to do the paying. Wherever it is possible for the Government to aid industry or promote the welfare of any class of people without adding to the burdens of other people it is of course desirable that it should do so, but all special grants of favor are to be viewed with suspicion. It is more than doubtful whether the farmers as a class will gain anything by interest rates that are below the normal market rates. Probably one-half of the farms have no mortgages upon them. The owners of these are making their way without any help, and they will not be aided by subsidized competition stimulated by the activities of the Government. When it is also considered that taxation is made heavier for these farmers who will never take advantage of the farm loan act, or who could get along as well without it, it will be seen that it is not altogether a boon even for the farmers as a class.

#### Constitutional Amendment.

The pressure for exemptions in aid of different interests increases with every new grant and becomes more difficult to resist. The fact that municipal and school district bonds, drainage district bonds, etc., have the exemption privilege has strengthened the plea for the exemption of farm loan bonds, and the fact that the latter have it suggests the extension to dwelling house mortgages. The exemption of the securities of all divisions of the Government is held to be a reciprocal right, which probably could not be taken away without a constitutional amendment, and Congressman McFadden has proposed such an amendment. It ought to be adopted. The various divisions of the Government would be amply protected against each other by a provision against discrimination as in the case of national banks.

Of course outstanding issues which have been sold under tax exemption conditions would have to remain exempt, but with a constitutional amendment all new issues should be subject alike to all levies.

## Land as a Factor in Prices.

We have received a letter from Professor H. C. Filley, of the department of rural economics, University of Nebraska, in which, referring to the discussion of the relation of farm land values to costs of production in the December Letter, he says:

> We agree with you very heartily in this discussion but there are a few points which might be added. In our work in cost of production in Nebraska, we do not use interest on the estimated value of the land as land cost. Instead we count the land rental at two-fifths of the crop delivered which was the common rental in eastern Nebraska in pre-war years. When crops are good and prices high this gives the landlord a rather high rental but in years like the present when prices of corn and oats are very low he receives a very low rental. Since so little land rents for cash we consider that this is much fairer than to make a fixed charge per acre. This two-fifths of the crop rental as a matter of course includes all land taxes, new building, repairs, depreciation, insurance on farm buildings and other items which are an essential part of the farm equipment and really constitute a considerable part of the land cost.
>
> In any discussion emphasizing the fact that farm land values depend upon the value of the farm products and that it is unfair to use the interest on estimated selling price of the land as a part of the cost of production, we should not fail to note that the same conditions apply to city property. The merchant for example, ordinarily counts his rental costs as a part of the essential cost of doing business. This rental cost, however, covers not only a fair rate of interest, depreciation and other items connected with the building in which he does business but covers also a valuation upon the land where the buildings stand and this valuation depends in turn upon the profits which some merchant is able to make in that particular location.
>
> For example, there are certain locations in the main business district of Lincoln, Nebraska, which have practically doubled in value in the last five or six years although the building on the site has not been changed and is in reality only a small part of the estimated value of the property. The merchants count the rental, including the rental of the land as well as the building, as a part of the cost of doing business and fix the selling price of their goods so as to include this cost. In no respect does this differ from the methods used by many farmers in obtaining their cost of production.
>
> We certainly agree with you that the farmer can not hope to secure a price for his products that will pay cost of production irrespective of the land value upon which these products were raised. We believe that you will agree with us that the merchant cannot hope to continue doing business at a large enough margin of gross profit that the interest upon the value of the land may always be returned irrespective of what that value may be.

The rule of land values is the same for city property and farm property. The value of the land in either case depends upon the income that can be derived from it; the income is not determined by what has been paid for the land. In boom times people frequently overestimate the permanent returns from all kinds of property and the severity of periods of reaction is largely due to such mistaken expectations. There are lands adjacent to cities in the West that were laid out as town lots prior to the panic of 1857, and never since have been worth what they sold for then. Land, particularly city property, in certain locations, may have a value for certain purposes

which it does not have for any other purpose. For a merchant to attempt to govern the prices of his goods by his rent or his investment in land would be acting upon a false basis. Nor does it follow because one merchant pays higher rent than another that his prices for goods are higher; high rents are usually for locations where a large volume of business can be done, and a large volume of business makes it possible to sell on a smaller percentage of profit.

The policy of calculating land charges upon the share-rentals instead of interest on estimated value of the land is decidedly preferable to the latter, but it must be borne in mind that the share-rental itself is a fluctuating quantity. Before the rise of prices which began about twenty years ago, it was one-third of the crop. Nobody will pay any rent for land unless he thinks there is a chance to first make fair wages by tilling it. As the returns increase the rental will naturally rise, but the rental is not a factor in the cost of the crop.

We have had numerous comments upon the discussion which appeared in the December Letter, some which lay emphasis upon the "monopoly value" of land, and the ability of landholders to "exact" high prices for products. The land-holder has as little to say about the value of his products as any other producer. More than almost any other class he takes what the market, governed by the law of supply and demand, allows him.

Of course the fact that the area of land is limited, and that some locations are preferable to others, gives a certain "monopoly value" to land, and affects the prices of products. This is the operation of the law of supply and demand, but it does not follow that consumers would be better off if all land values were confiscated. The area of land would still be limited. The only relief to the public is in having the land cultivated with the highest possible degree of efficiency. As we have frequently stated, consumers will be best served by whatever land policy results in the largest annual crops.

## Financing Highway Construction.

Mr. Horace C. Sylvester, Jr., Vice-President of the National City Company, made an address before the eighteenth annual convention of the American Road Builders' Association, at Chicago, on February 12, last, upon the subject of "Highway Finance," from which we make a few extracts touching the more important features of the subject:

The first principle which I would emphasize is that in financing highway construction, money borrowed should be repaid as soon as the principal and interest can be raised by taxation, without unreasonably burdening or oppressing the taxpayer. Under present conditions, it is impossible to forecast the time when reconstruction and rebuilding will be required. Before that time arrives, the bonds are obligations issued to finance the original construction should have been retired. * * *

The other features in the proper and successful financing of highway construction are those which create an attractive and marketable security and permit the borrowing of money on the cheapest and lowest terms. * * *

The next unit in road construction in order of importance, is the County. County bonds approach the State bonds in security and desirability, and are a much better security and much more attractive to investors than the bonds of a township or district.

Finally come the bonds of a township or district. These are good securities, but the rate of interest is higher than the rate on bonds which may be issued by either the County or the State.

To successfully finance highway construction, it is my opinion that highway bonds should be issued by a State, by a County, or by a District or Township, and should be paid from an ad valorem tax which is authorized to be levied in an amount sufficient to pay the bonds. No limit should be placed upon the rate of tax which may be levied. If such a limit be imposed, the desirability of the security will be affected, the rate of interest will be increased, and the taxpayers will be needlessly burdened. * * *

While a security based upon a special assessment may be marketable, the price paid in the shape of interest and discount, will be much greater than in the case of an obligation secured by an ad valorem tax. This will be the case where the bond is issued by a county but is payable from a special assessment, and it is only when a default has taken place in the collection of a special assessment, that the County can be compelled to pay principal or interest. Such an obligation is not regarded with favor. * * * They can only be placed if they bear a high rate of interest, and many times, they must be sold at a discount. Frequently they are issued directly to contractors, who have bid for the work, knowing that they must take payment in this form. The cost of the improvement is increased, because the contractor so bidding will add enough to absorb any discount at which he will be obliged to sell the bonds. The price of money necessary to finance an improvement when raised in this way will be great. When money may be borrowed upon a general obligation of a county at say five per cent per annum, it will be found necessary to pay six per cent upon a special assessement obligation at the least. Sometimes the special assessment obligations will be disposed of to the ultimate investor so as to net him seven, eight or nine per cent per annum. The public must pay this return to the investor in some form or another.

* * * If the improvement is a proper case for a special assessment against abutting property, or even against the township or district, such special assessment should be treated simply as a means of reimbursing the county, with which the borrower will have no direct concern. The special assessment should be regarded simply as in the nature of an additional means of raising money or more equitably distributing the public burden and should not have any relation to the bond or debt, except such as arises from the fact that the county has an additional resource. * * *

### Serial Issues.

The advantages of a serial issue as compared with a flat term issue are numerous. The serial issue immediately absorbs the monies raised by taxation to pay the principal. The creation of a sinking fund is rendered unnecessary. The accumulation of large sums in the city treasury in the name of a sinking fund, possibly bearing a small rate of interest, whilst full interest is payable on the city's debt, is avoided. The serial issue automatically conforms to the principles of economic financing, and even if compared to cases when the sinking fund is efficiently administered, results in a saving to the municipality.

The serial method by dispensing with a sinking fund avoids the danger of loss from improvident or negligent management of sinking fund monies, or from dishonesty or incompetency. It removes the temptation to so employ large sums of money as to further personal rather than public aims, and if consistently carried out, it avoids incurring the expenses for the management of a sinking fund.

But a further and much greater advantage rests in the fact that if a serial issue be made, the danger of a refunding at maturity will be avoided.

### Keep the Buyer of Securities in Mind.

In financing your road improvements, I urge upon you always to try to issue a security which will be attractive to the investor. It is good business for the county, township or district. It is also good business for the banker. The certainty of payment on the due date of an obligation is of the essence of all successful business, and everything that can be done to assure the investor that on the day stated, the amount of his loan will be repaid to him, will tend to reduce the cost of the loan to the borrower.

### Negotiating the Sale.

The sale should be conducted under such terms as will assure a fair deal. If a public sale be had the bids should be received, opened, and the bonds promptly awarded under conditions which will exclude the possibility of favoritism. If the bonds be sold privately, the negotiations should be so conducted that when the purchaser takes delivery of the bonds, he will not find that the county, township or district has already offered them indiscriminately to all the banking houses and generally shopped around trying to obtain a purchaser. No person likes shop-worn goods, and bonds which have been privately offered to every banker or investment dealer by some person professing to act on behalf of the county, township or district, are not looked upon with favor by reputable dealers.

In everything that is done, the best policy is to place the interests of the county, township or district first. Reputable bankers and dealers wish a security which is beyond suspicion and prefer dealing that is open and above board, and so long as they are squarely treated in the sale of bonds, no reputable banker or dealer will complain merely because the interests of the public are carefully protected.

## Bond Market.

There was a distinct letup in new financing during the month which has assisted materially in clearing the market of undigested portions of the many issues which were publicly offered in rapid succession during the early part of the year. The latter part of the month there was noticeably a much better tone in the bond market, with advancing prices. This was especially true in regard to foreign government issues. It does not appear now as though there was a large stock of securities in the hands of dealers, and the let-up of new offerings during the month should result in a better distribution of recent issues and tend to place the market in a position for further absorption of new securities.

Following is a list of the more important new corporate issues offered in the month of March:

| | |
|---|---|
| $2,500,000 | West Virginia Metal Products Corp. 7% Cumulative Conv. Pref. Stock at par. |
| 1,000,000 | Bird & Son, Inc., East Walpole, Mass. 8% Cum. Prior Pref. Stock at 100 & dividend. |
| 1,250,000 | Bradley Co. (Springfield, Mass.) 8% Cumulative Pref. Stock at 100 & dividend. |
| 1,400,000 | Washington, Baltimore & Annapolis Electric RR. 2-yr. 7% Mortgage & Coll. Trust Notes, at 98.19 & int., to yield 8%. |
| 1,500,000 | Crowell & Thurlow S.S. Co. 1st Mtge. 8% Serial Gold Bonds, due March 1, 1923-32, at 99½ & int., yielding from 8.05% to 8.2%, according to maturity. |
| 2,000,000 | Public Service Co. of Northern Illinois 7½% Conv. Gold Debentures, due March 1, 1936, at 95 & int. |
| 5,000,000 | Sharon Steel Hoop Co. 1st Mtge. 20-yr. S. F. 8s, Series A at 100 & int. |
| 2,500,000 | Shawinigan Water & Power Co. 1st Ref. Mtge. S. F. 6s, due July 1, 1950, at 90½ & int., yielding about 6¾%. |
| 2,000,000 | U. S. Building Material Co. of Chicago 1st Mtge. 8% Serial Gold Bonds, due Sept. 1, 1921-Mar. 1. 1931, at par & int. |
| 5,000,000 | Boston Consolidated Gas Co. 1-yr. 7% Notes, at 99½, to net over 7½%. |
| 10,000,000 | Cuban-American Sugar Co. 1st Mtge. Coll. 8% S. F. Gold Bonds, due Mar. 15, 1931, at 100 & int. |
| 2,000,000 | Fraser Companies, Ltd. 8% Genl. Mtge. Gold Bonds, Series A, due Mar. 1,1941, at 99 & int., to yield 8.10%. |
| 25,000,000 | Humble Oil & Refining Co. 2-yr. 7% Gold Notes, at 99 & int., to yield about 7.55%. |
| 4,000,000 | Mount Royal Hotel Co., Ltd. 8% Conv. Debentures, at 100 & int. with bonus of 40% common stock. |
| 1,000,000 | Howard Smith Paper Mills, Ltd. 1st Ref. Mtge. S. F. 7s, due Jan. 2, 1941, at 82 & int., yielding 8.82%. |
| 2,000,000 | California-Oregon Power Co. 1st & Ref. Mtge. S. F. 7½% Gold Bonds, Series A, due Feb. 1, 1941, at 100 & int., yielding 7½%. |
| 2,500,000 | Los Angeles Gas & Electric Co. Gen. & Ref. Mtge. 7% Gold Bonds, Series A, due Mar. 1, 1926, at 98¼ & int., to yield about 7.40%. |
| 2,000,000 | (Rudolph) Wurlitzer Co. Cincinnati, 8% Cum. Pref. Stock, at 100 & div. |
| 4,000,000 | Abitibi Power & Paper Co., Ltd., Consol. Mtge. 8% S. F. Gold Bonds, due Mar. 15, 1931, at par & int. |
| 2,500,000 | Great Western Power Co. of California General Lien Conv. 8% 15-yr. Gold Bonds, at 100 & Int. |
| 1,250,000 | Municipal Gas Co., Albany, N. Y., 1-yr. 8% Gold Notes, at 100 & Int. |

During the first week of the month the United States Supreme Court announced a decision upholding the constitutionality of the Federal Farm Loan Act and the exemption of the bonds from Federal, State and local taxation, and it is expected that the Farm Loan Board will take advantage of the better market which has developed as a result of the above mentioned decision to offer for sale shortly a substantial amount of Farm Loan Bonds.

Financing by states and municipalities was also on a small scale during the month, the more important issues being:

| | |
|---|---|
| $3,000,000 | South Carolina 6% Notes, due 1922, price to yield 6½%. |
| 1,250,000 | Hidalgo County (Texas) Water Improvement Dist. No. 2 6% Coupon Bonds, due Dec. 1, 1921-49. at ??? |
| 2,500,000 | Tarrant County, Texas, 5% Road Bonds, due Oct. 10, 1924-50, at prices to yield from 6% to 5.65%. |
| 1,000,000 | Province of Manitoba 5% 5-yr. Gold Coupon Debentures, at 90¼, to yield 7⅜. |
| $700,000 | Brown County, Wis., 5% Road Bonds, due 1922-41, at prices to yield from 6% to 5.40%. |
| 835,000 | Casper, Wyoming, 6% Bonds, due 10-30 yrs., at par. |
| 850,000 | Stearns County, Minn., 6% Court House Bonds, due Mar. 1, 1926-41, at prices to yield 5.50%-5.75%. |
| 2,000,000 | Province of British Columbia 6% 5-yr. Debentures, at basis of about 5.15%. |
| 750,000 | Quebec Roman Catholic School Commission 6% 10-yr. Debentures, at basis of about 6.15%. |

1812

1921

**Economic Conditions**
**Governmental Finance**
**United States Securities**

New York, May, 1921.

## General Business Conditions.

THE general situation as to trade and industry has shown some further improvement during the past month, although the fundamental difficulty, which is the disruption of the price level between raw products and manufactured goods is yet far from overcome. According to government reports, the level of the principal farm products declined 5.6 per cent in March, whereas the normal movement in March is upward, and over the last ten years has averaged 3.4 per cent. On April 1 the index figure of farm products was 58.3 per cent lower than a year ago, 48.6 per cent lower than two years ago and 27.6 per cent lower than the average on April 1 of the past ten years. Other primary products, such as lumber and the metals, as yet have made no recovery, while on the other hand manufactured products, especially at retail, freight charges and personal services generally, have made no corresponding decline. Naturally the sale of manufactures has fallen off, railway traffic has declined and there is a large amount of unemployment. A description of the situation is enough to explain it, for agricultural products and raw materials represent the purchasing power of about one-half the population.

Nevertheless, there is bound to be more doing in the Spring than in mid-Winter, and the industries are going much better than they were three months ago. The automobile industry naturally is stimulated by Spring and good weather, and has come back strong. The tire industry has revived, and one of the biggest tire companies, the Goodyear, which was in financial difficulties as a result of the sudden falling of business in the face of big inventories, has been successfully refinanced and started on its way. The tire industry is an important factor in the cotton-spinning industry, and the mills that are getting busy again on tire materials are no longer competing upon other cotton fabrics. Other outdoor activities are having similar stimulating effects.

The building industry is the one that should show the greatest improvement, as there is an undoubted shortage of houses everywhere, but building operations are held in check by the excessive costs. Wages are high in the building trades, and materials are high because of the wage costs in them and the high cost of transportation, which in turn is due to the wage advances to railway employes. Bradstreet's report of building permits issued in 155 cities in March showed an aggregate of $118,439,947, as against $145,923,799 in March, 1920. Even this does not signify that all of the work is going forward at once.

### Textiles and Shoes

It is about one year ago that price-cutting began in cotton and woolen goods, although the silk boom culminated earlier. Goods had been ordered on a large scale for fall trade, but as the alarm spread the orders were generally cancelled. The same was true of shoes, and buying in all of these lines has not been normal since then. The orders were not reinstated. The fall season was practically skipped so far as the mills and factories were concerned, while dealers worked off their stocks, or bought in small lots to meet immediate needs. The spring trade has been handled in much the same way, the buying being relatively light and from hand to mouth, although there has been a good degree of revival in mill operations. The consumption of raw cotton was 366,270 bales in January, 385,563 bales in February, and 437,933 bales in March. The last figure compares with 575,789 in March, 1920.

The shoe industry has made some improvement, but is still slow. The Endicott-Johnson Company, of Binghamton, has announced a general reduction of wages of 20 per cent, from lowest to highest, effective May 1. In making the announcement the president, George F. Johnson, said that since 1914 the wages of the employes had been increased 140 per cent, not including the bonuses, which amount to 87 per cent more. Therefore, with the wage reduction effective, the employes are still receiving an increase of more than 100 per cent over 1914, while the cost of living is steadily decreasing.

#### Woolen Goods and Clothing

In woolen and worsted goods, interest now centers in business for fall delivery, and the situation is very good, particularly in goods for women's wear. The manufacturers have good order books, but the memory of last year abides and they are timid about buying the raw materials, for fear of cancellations. Their prices are at little better than cost, and they do not wish to take chances. For this reason the movement of raw wool has not been proportionate to the orders for cloth, and considerable purchases of wool remain to be made. The clothing trade has been restricted, but is said to be improving. In Chicago, wages in the clothing industry have been arbitrated, with the result that a reduction of 10 per cent has been agreed to. Arbitration proceedings are in progress at Rochester, an important clothing center, and the presentation of the case by the manufacturers states that the actual number of garments being made is 25 to 50 per cent below normal. In New York, a strike in the clothing industry has been on for six months. Ordinarily about $200,000,000 worth of clothing, of the cheaper grade, is made in this city, but this year it is estimated that the curtailment will be 85 per cent. The industry in Boston is also tied up in a strike.

#### Cotton Goods

The cotton goods market has been very uneven and fitful since last fall. Perhaps the most encouraging feature of late has been a greater degree of stability, although prices generally are little above the bottom level of the depression. The print cloth market remains steady at around 6½c for 38½ in., 64x60, 5.35's. This is a half cent up from the low point reached by these goods. There is a little more activity in coarse yarn merchandise.

Amory, Brown & Company, the largest manufacturers of cotton blankets, have announced the price on their line for the fall season at 40 per cent below that of a year ago. The same house has named 18 cents per yard on 8 ounce mitten flannel, which sold last year at 45 cents per yard.

Colored goods, such as ginghams, outings and other semi-fancy merchandise, are moving very well, but the finer goods, such as cotton-and-silks, high priced voiles and lawns, are in an unsatisfactory position. It is said that retail prices upon these have not been reduced enough to attract the public.

The news from the British cotton goods industry about the 1st of April, was more encouraging, but the coal strike has given it a set-back.

The silk goods industry, which started up very well a month or two ago is doing well, and prices have advanced slightly. Raw silk is still on about the basis fixed by the Japanese pool, to which the government has lent some financial support.

Generally speaking retail trade in large cities is reported good, which emphasizes the falling-off in the rural districts.

#### Iron and Steel

The iron and steel situation is quiet, with demand light, and no developments of importance since the United States Steel Corporation announced its reductions. The smaller producers are making practically no profit from present operations, and are not disposed to cut prices further at a time when they see little prospect of stimulating the demand. The big corporation is very deliberate in its policies, and especially desirous of avoiding criticism in its relations with labor. It is responsible for no wage reductions as yet, although with operations curtailed approximately one-half it is evident that wage payments are very much lower than they were. This, however, does not excite criticism like wage rate reductions, and the management probably is of the same opinion expressed by others, that price reductions at this time would not create new business. The reduction of prices in any one line usually seems to the people in that line to be not enough in itself to change the general situation. They are all willing to change after the others do.

#### The Agricultural Situation and Foodstuffs

The Winter wheat crop is still looking fine, promising one of the largest yields ever known. The Spring sowing of all grains has been somewhat retarded by cold weather and snow, but the soil is in good condition. The acreage under cultivation probably will be somewhat reduced, as it will be the policy of the farmers to avoid outlays and risks in their operations this year, and make the crop as cheaply as possible. New crop wheat has been contracted in Chicago at slightly above $1.00 per bushel. Flour trade is light on account of the declining wheat market, and leading bakers are reducing the price of bread, as much, they claim, as possible without reducing wages in that industry.

Butter declined further during the month, and the prospects are that the supplies put into storage will be large, and that they will go in at about pre-war prices.

The price of refined sugar in New York which in January advanced to 7.35 cents per hundred pounds has been undergoing a decline, and at the close of April was quoted at 6.50 to 6.60. The financial situation in Cuba is bad and has been made worse by a strike of the employes of the Cuba railway, which stops the movement of sugar, and will shut down some of the centrals for want of storage facilities.

The general outlook for the crops at this time indicates a favorable year and supplies of foodstuffs ample for the wants of the country. The South will be more nearly self-supporting in this respect than has been usual in the past.

Considerable damage has been done to fruit mainly in the latitude of Tennessee, by the late freezing storms.

The cotton market has been a little better, on the strength of increased consumption in this country and some encouraging news from England. Exports of raw cotton in March were 375,180 bales, against 794,460 bales in March, 1920. Cotton planting has been delayed in the South by unfavorable weather, and it is too early to determine definitely what the acreage will be, but common opinion among those well informed is that the reduction in acreage and in fertilizer purchases indicate a reduction of 30 to 40 per cent in the crop. Sales in Southern markets are running at about 11 to 11.50 cents per pound.

#### The Question of Wages and Prices

It is evident on every hand that the depression which exists is due to the unbalanced state of industry, as regards the compensation received by important bodies of people. A great portion of the population suddenly has lost a large part of its purchasing power, and no longer is able to buy the products of the other industries as it has been accustomed to do. The people in the other industries, employers and employes alike, seem to have no definite idea about what has happened to them, but are sitting around, trying to cheer each other up, and watching the skies for better weather. They say that this is a country of wonderful resources, that it is bound to go ahead, that anybody who is a bear on the United States will go broke, etc., etc. They are sure it will go ahead, because it always has, and in this they are undoubtedly right, but if we all understand the conditions which must exist before it goes ahead, we may help to bring them about.

The first thing is to consider the position of the farmer, not as a matter of sympathetic interest but to see how it relates to the general situation. To be specific we might take the case of the cotton-grower, who is now getting about the same price for his cotton that he did before the war. His cotton is shipped away upon a railroad whose charges are more than 50 per cent higher than before the war, and whose employes are getting more than 100 per cent higher wages than at that time, to a mill whose employes, notwithstanding recent reductions, are getting 100 per cent higher wages than before the war; the coal consumed in transportation and in the manufacture of cloth costs twice as much as before the war, because wages and other mining expenses are twice as high as then; the cloth is made into clothing by labor which receives twice as much as before the war; and finally, with various other expenses and profits added with a like percentage of inflation, the cotton garment comes back over the railroad, and is offered for sale to the cotton grower. The rest of the farming community is in the same situation as to income as the cotton-grower. Is it any wonder that the market for cotton goods has fallen off, or that the decline is principally in the rural trade?

Compare the price that a farmer gets for the hide of an animal, with the price he must pay for a pair of shoes, and contemplate the statement on page one from Mr. Johnson, of the Endicott-Johnson Shoe Company, relative to wages in the shoe industry.

When will trade revive? What does "trade" mean?

There has been no such dislocation of exchange relations, either between countries, or between industries within this country, in all the past. That dislocation must be corrected before trade can be restored to normal proportions. Either farm products and raw materials must rise to the level of manufactures and the common basis of wages, or the latter must come down to the level of the farmer, or they must meet on some intermediate level. The fundamental requisite is that they get together.

Farm products and raw materials are related to world markets, and there is no reason to believe that they will recover former levels. All the probabilities are against the restoration of war prices in time of peace.

#### What Constitutes the Cost of Living?

The next thing is to stop talking in terms of money only, when compensation is concerned. The labor leaders knew better than that when the cost of living was rising; why not recognize that the purchasing power of money is of as much importance when it is rising as when it is falling? And why not recognize that the wages paid in every industry are a factor in the cost of living of all the wage-earners?

The labor leaders are arguing before the Railroad Labor Board against what they are pleased to call a reduction in the standard of living for railroad employes, but the wages they are contending for are having the effect of reducing the standard of living for millions of other people, and of dislocating the relation of transportation to other fundamental industries, besides reducing the transportation industry itself to a state of ruin and depriving

about 25 per cent of the railroad employes of their jobs.

Mr. C. M. Schwab stated recently that a few years ago it was possible to make iron at $14 per ton at a profit, and that now the element of freight charges alone amounted to $14 per ton. And this raises a question as to how much present wages in the iron and steel industry have to do with railroad costs.

In the case of wages in the clothing industry, recently arbitrated in Chicago, the arbitrator held that it would not be fair to reduce them more than 10 per cent, because the cost of living had declined only about that amount. The dispute in the packing industry was settled on about the same basis in March. Of course, if wages had come down a little more in the packing industry it would have made proper a little larger reduction in the clothing industry, and together they would have made possible a reduction in the baking industry, and in the cost of delivering milk, in the making of shoes and newspapers, in railway wages and freight charges, in wages and prices in the steel industry, the pay for mining coal, etc., and by this time it would be in order to begin again with the packing employes and clothing-makers.

Broadly speaking, wages and the cost of living should and do come down together, but how long will it take under this deliberate method, with everybody doing the Alphonse and Gaston act, to get industry back into balance, and provide everybody with work?

At a recent convention of New England cotton goods manufacturers it is reported that sentiment was opposed to further wage reductions, first, because they probably would be absorbed by retailers, who have not yet given consumers the full benefit of past reductions; and, second, because it would not be fair to reduce skilled cotton operators to wages below those of carpenters, bricklayers, plumbers and others in the building trades.

### Ignoring the Main Fact

Meanwhile the economic law is not waiting on anybody. It got to work promptly, with the result that wages have been reduced already! According to a survey by the Bureau of Labor, Washington, about 3,500,000 persons in the ranks of the wage-workers are out of employment and not getting any wages at all. What is the good of laying so much stress upon the relation between nominal wages in the cotton goods industry and the building trades, when there is so large a percentage of idleness in both? It is the amount of money in the pay envelope that really counts.

The United States Chamber of Commerce has conducted an extensive inquiry to learn by what method the industries generally were meeting the falling off of demand for their products. Were they reducing wage rates or laying off employes? The replies show that much the larger number were adopting the latter plan, although many were also making moderate rate reductions. Cutting down the force causes less friction with the labor organizations, because it is assumed that the force will be soon restored, and they wish to hold the ground they have gained. That may be good policy under ordinary conditions, but it does not meet this situation, which requires a general readjustment of relations after the most profound disturbance ever known.

### Keeping Up Costs

The trouble is that aggregate wage-payments have been enormously reduced without accomplishing anything toward restoring the balance between the industries. The loss of wages and production is sheer waste. The cost of production in all the industries that have laid off workers without reducing wage rates is as high as it was before, and prohibits the expansion of consumption. It keeps up the costs of living to all those who have had to take reductions in their own compensation and to those who are out of work as well as to those who are fortunate enough to be employed. It holds the situation in a deadlock, except as it slowly and inevitably gives way under the pressure of grim necessity.

Freight rates are so high that traffic is diverted into new channels. The movement through the Panama Canal has been much stimulated. California, Oregon and Washington fruits are coming that way. Copper mined in Montana has come around that way, and the United States Steel Corporation has put a ship on the run between Mobile and Pacific Coast points, for the delivery of steel products. Cotton is going that way. Products are coming from the interior to the Atlantic Coast by short rail hauls, bound for the Pacific Coast by water. New trade zones are being created, and the value of many industrial investments will be permanently affected. And in the end the loss of traffic will reduce aggregate payments to railroad employes.

The wage rate for mining coal is very high, and the cost of coal is a serious factor in railroad operating costs, and this again in all industrial costs, but the decline of industrial activity puts the miners on part time, so that they fail to get the benefit that the high rates might be supposed to give them. The high cost of building operations has the same affect upon the building trades.

These are evidences of a principle running throughout all our economic relations. They are signs that those relations are not determined at last by the mere strength and bar-

gaining power of the different elements in society, but that there is a normal balance and relationship under which all groups and classes prosper best together.

## Financial Conditions.

The money market has developed signs of increasing ease during the past month. The position of the Federal reserve banks has notably improved and there are symptoms of a return of competitive conditions among the member banks. They are no longer quite so fully confined to taking care of the wants of their own customers. This is indicated by a greater movement of commercial paper and an easing of the rates. The rate is generally 7½ per cent, with a few exceptional names offering at 7.

The rate on call money has been fluctuating between 6 and 7 per cent. The amount employed is comparatively small, and mainly from industrial corporations and out of town sources.

Importations of gold have been very heavy, aggregating over $200,000,000 on balance since the first of the year. The gold holdings of the Federal reserve banks on April 27 were $2,317,569,000, which compares with $1,936,720,000 a year ago, and is $116,000,000 above the high mark of previous years, which was on June 6, 1919.

It is natural that any loose gold in the world should flow to the United States while exchange rates are as present, but inasmuch as an embargo upon gold exports, except as to new production, exists in most countries, there is some mystery as to the source of this great supply. The most plausible explanation is that much of it comes primarily from Russia, whose stock will not last forever.

### Influence of Gold Imports

This gold undoubtedly is a factor in easing the credit situation, but principally because it comes here in payment for something. It is not being used as the basis of credit, and is not needed for that purpose, for the volume of loans is declining, and the business public is in a mood to pay debts and get square with the world again, rather than make new loans. The new gold goes to the United States Assay office, and eventually lands in the reserve banks, increasing the percentage of reserves. It is a good asset and, as indicated above, its coming in payment for products is beneficial, but it would be better if we were taking our pay in good securities, drawing interest, instead of a dead asset. It should not be forgotten for a moment that there is peril to any country in receiving a larger share of the world's gold than it can expect to hold under normal conditions. There is no profit in holding it idle, and there is no safety in employing it as the basis of credit, because sooner or later it will have to go and then the whole credit structure resting upon it must be readjusted.

It is true that there is no prospect of gold exports at an early day, but somehow the world must get back into balance or there will be no prosperity for any country. The people who think we can go ahead and get up a fine boom for ourselves on the basis of these gold imports are the same kind of people who were thinking one year ago that the cycle of rising wages and prices could go on forever. They never would be ready to give up the gold (and readjust credit) once they had it in use. Some of them wanted the United States to suspend gold exports about one year ago.

### Discount Rates

The Bank of England, which raised its discount rate to 7 per cent about a year ago, when the Federal Reserve Bank of New York and other reserve banks took similar action, reduced its rate on the 28th ult. to 6½ per cent. The Boston Reserve Bank reduced its rate to 6 per cent on April 15. Conditions in that territory became relatively easy some time ago, and the Boston bank has been lending largely to the reserve banks in the South and West. There is a desire to make conditions as easy as possible for the agricultural districts, where conditions are very tight, but without encouraging a revival of the speculative conditions which have been the real cause of the stringency. The rate of interest for capital is governed at last by the relation between real capital and the amount of credit which is sought to be used as a substitute for capital. The latter has been unduly large ever since the war got well under way. The rate of interest of the reserve banks must be related to the actual credit situation.

Most of the banks are still encumbered with a mass of indebtedness representing government war expenditures and the speculative ventures of the war period and the two years following. These loans do not represent corresponding assets in the business of the country and the banks will not be in normal condition until they are worked off.

## The Railroad Situation.

The Railroad Labor Board made short work of the national wage agreements, after hearing the evidence. It dispensed with arguments and ordered the agreements abrogated as of July 1, next, directing that in the meantime agreements be negotiated between the individual roads and their employes. This is the action contended for by the railroad companies, with a view to attacking the burden-

some classifications and other conditions which they inherited from Government control. A notable feature of the Board's decision was a draft of general principles which it laid down for the purpose of indicating to the contracting parties the conditions which the Board will require. They are generally regarded as excellent and if the Board is successful in establishing them as the standard of conduct in the operation of the railroads it will be one distinct achievement to the credit of the Esch-Cummins law. The principles are as follows:

1. An obligation rests upon both sides to render honest, efficient and economical service.

2. Both parties are enjoined to conduct themselves so as to promote the essential spirit of co-operation.

3. Rules will not be subversive of necessary discipline.

4. Right of employes to organize for lawful objects shall not be denied or obstructed.

5. Managements shall agree to the right of such organizations to act through representatives of their own choice, whether employes of a particular carrier or not.

6. Neither side shall discriminate against union or non-union men.

7. Management shall agree to right of men to be consulted prior to a decision adversely affecting their wages, through representatives of a majority of employes of any given class.

8. No employes shall be disciplined without a fair hearing, but may be suspended pending a prompt hearing.

9. Proper classification of employes and definition of work done by each class is necessary, but shall not unduly impose uneconomical conditions on carriers.

10. Regularity of hours or days during which the employe is to serve or hold himself in readiness to serve is desirable.

11. Principle of seniority is sound and should be adhered to, without unduly impairing the service.

12. The board approves of the principle of the eight-hour day, but believes it should be limited to work requiring practically continuous application during eight hours. For eight hours' pay eight hours' work should be performed by all railroad employes except engine and train service employes, regulated by the Adamson Act, who are paid generally on a mileage basis as well.

13. Health and safety of employes should be reasonably protected.

14. Opportunities to learn any craft or occupation shall not be unduly restricted.

15. Majority of any craft or class of employes shall have the right to determine what organization shall represent such craft or class and such organization shall have the right to make an agreement which shall apply to all employes in such craft or class.

16. Employes called or required to report for work and reporting but not used should be paid reasonable compensation.

The representatives both of the companies and of the employes have expressed their satisfaction with this platform. It remains to be seen how readily they will agree in interpretating it.

The action of the Board is the most encouraging of recent developments. An important reduction of expenses should result from the simplification of the working agreements, and the Board will now take up the question of wage rates.

#### A Senate Inquiry

The United States Senate has adopted a resolution offered by Senator Cummins, providing for an inquiry into the railroad situation, including the reasons for the high operating costs, influence of increased charges, efficiency of management and of labor, and best means of bringing about a reduction of freight and passenger rates.

While most people think the cause of the railroad emergency is in plain sight, it is doubtless well to have an official inquiry held, for the sake of clearing up some of the loose talk that has been current on the subject.

An "economist" representing the brotherhoods has been occupying considerable space in the newspapers with charges against the railroad managements. Even if they were all true they would not justify the payment of wages out of all proportion to those paid in other occupations for services no more arduous or difficult in the same territory. The public is interested in the elimination of unnecessary expenses of every kind, and the "economist" in question doubtless will have an opportunity to substantiate his allegations before the committee. If they are substantiated, the public will give him credit for his discoveries, but it will want to deal with excessive wages just the same. It should be obvious, however, when the roads in the aggregate are barely making operating expenses without including interest or dividends that it is not the exactions of capital that are making rates high.

#### Position of Railroad Owners

The talk to the effect that the Esch-Cummins act is a failure is unwarranted. It has laid down a sound general principle of rate-making for the guidance of the Interstate Commerce Commission, viz.: that charges should be so adjusted as to produce a fair return upon the actual value of the aggregate property employed in the transportation service, and named 5½ per cent for the first two years. It is true that owing to the high cost of operations together with the general reaction in business, the new rates have not produced the return contemplated; and it is also true that some of the rates adopted have had the effect of diminishing traffic. But that does not prove that the principle laid down in the act is unsound. There is no getting away from the principle that the railroads must earn and pay the cost of operating them. The present situation merely emphasizes the necessity of reducing operating costs. That issue must be faced.

After all unnecessary expenses are eliminated, the public will have to pay the remaining costs, if they want to have railroad service, because nobody will supply capital for operating railroads at a loss. Business will have to pay, or adjust itself to getting along with-

out railroads, as they do in China. The problem will not be solved by repealing the Esch-Cummins law, and abandoning the idea of paying 5½ per cent interest upon the capital invested in railroads. The fact is that no railroad is able to get any new capital at so low a rate as 5½ per cent, and without new capital the roads will go into bankruptcy and the service will steadily deteriorate. The Great Northern—Northern Pacific issue of bonds just now being refunded carried 4 per cent interest, but the new issue pays 6½, besides higher costs in placing them.

Of course it may be said that this does not settle the matter, because the roads may not make earnings to pay the interest charge, but if railroad credit is destroyed there will be no new capital to make the improvements that are constantly required and which amount to hundreds of millions of dollars per year.

It may be said that the Government will take over the roads and operate them, but nothing is more certain than that operating expenses would increase under Government management, and the deficit would be greater than ever. The Government might make up the deficit by taxation, but this would absorb capital needed for industrial development, with the result that there would be continuous unemployment in industry and that business of all kinds would be depressed. It all comes to the same thing: one way or another the cost of transportation must be paid, and there is no better way than by charging it directly to the traffic, keeping the expenses as low as possible.

### What Does the "Guaranty" Mean?

While the talk of repealing the Esch-Cummins act is most unwise, it is probable that readjustments are required in the rate schedules. Certain rates have been voluntarily reduced already, upon the initiative of the railroads. They are not interested in rates that prevent shipments, but in rates that yield the largest net revenues.

There is no guaranty of a 5½ per cent return, either to the roads individually or in the aggregate; that is obvious, for they are not getting it. If it cannot be earned the roads cannot get it.

One of the most irrational statements in connection with this whole question is the assertion that the railroads have been made a favored class of property by reason of the alleged "guaranty." "Why, for instance," it is asked, "should not the Government guarantee 5½ per cent upon the aggregate value of farm property?"

The reason is that the Government does not interfere at all with the income of farm property—except as it gave a minimum guaranty upon wheat during the war, and incidentally it may be said that quantities of wheat were sold above the guaranteed price.

The primary reason why the Government exercises supervision over railroad charges is to limit and regulate them for the protection of the public. The owners of railroad property are not permitted to charge what they please. They are controlled and restricted by governmental authority, and at times this authority has been exercised so illiberally that the public turned away from railroad investments, with the result that the roads fell behind with improvements and equipment, and the service deteriorated. It was for the purpose of restoring railroad credit and attracting capital to railroad investments, that the Congress enacted the law instructing the Interstate Commerce Commission in its regulation of railroad charges to permit earnings of 5½ per cent on the actual value of the property. It was done in the interest of the public, and as a pledge and assurance that in exercising the power of supervision and restriction the public authority would not go to the extent of restricting earnings below this reasonable return.

### An Obligation Implied

The unregulated industries are free to get what they can. They have their good years and poor years, and free play for the exercise of managerial judgment. An industry that is restricted in its earnings, whose charges are fixed by an authority outside of itself, is on an entirely different basis. An assurance that the restriction will not be carried beyond a certain degree is a fair and even necessary compensation for the freedom it surrenders. If not expressed it is always implied, or no capital would voluntarily enter the employment. The Esch-Cummins act merely undertook to make the understanding more definite for the benefit of all concerned.

The owners of railroad property have gone through the war period without any increase of incomes to compensate for the loss in purchasing power. They have seen the capital value of their holdings shrink, in many instances very seriously. The holder of 4 per cent bonds has continued to get 4 per cent on the same amount, which has been equivalent to not more than 2 per cent of pre-war purchasing power. The holders of New York Central stock have continued to get 5 per cent, the holders of Pennsylvania have had their dividends cut from 6 per cent to 4, holders of Chicago and Northwestern have had theirs drop from 7 per cent to 5, while the holders of Chicago, Milwaukee and St. Paul, common and preferred alike, have been deprived of any return. These are examples.

On the other hand the employes upon the railroads had their wages raised by over one

hundred per cent, the farmers sold their products for the highest prices ever known, and for several years these prices were advancing ahead of the cost of farming operations. Practically every industry except transportation had its earnings adjusted to the general decline in the purchasing power of money. Even now 5½ per cent, if actually received, would accomplish no such adjustment.

The situation is not simply that of doing justice to investors in railroad property; it is a question of finding new capital to maintain and develop the railroad service.

## British Coal Strike.

The coal mines of Great Britain, which had been operated by the Government during the war and since, were turned back to the owners on April 1, and the failure of owners and miners to agree upon wages brought on a strike which for a time seemed likely to cause a complete line-up of organized labor against the Government, and put the stability of the social order to the supreme test.

Under the management of the Government, and to obtain the largest possible production during the war, the earnings of all the coal districts were pooled and the miners' pay was fixed on a uniform scale throughout the country. The scale was advanced from time to time until more than double the average before the war. Before the war the pay was higher in some districts than in others, because of differences in operating conditions which affected mining profits. The miners fared much better under Government management than they had previously and the public paid much more for coal. The miners were unwilling to go back to the old system of separate wage scales by districts, with wage reductions that in some instances were very drastic, and the owners were unwilling to pool their earnings, making the good properties carry the poor ones, as the Government had done. The only way this could be done, apparently, was by nationalization of the mines, which the miners wanted.

Assuming that the issue could be settled only by nationalizing the mines, here was a question of national policy, affecting everybody, and upon which under democratic institutions everybody would have a right to a say. The miners, however, had closed the mines and were confident of their ability to enforce their demands, particularly as they had the support of the Triple Alliance, which included beside themselves the railway employes and transport workers. It looked as though the country would be not only without coal but without the regular transportation services.

The Government remained firm in refusal to have its policies dictated in this manner, but the Premier, Lloyd-George, publicly offered to hold a regular election and submit the question of nationalizing the mines to popular vote. Nothing came directly of this offer, but it may have been a factor in what followed.

When all hope of averting a general strike had been abandoned, a group of members of Parliament, acting upon their own motion, sent first for the committee representing the mine-owners, and then for Mr. Frank Hodges, representing the miners, to learn the possibility of temporary concessions, pending further consideration of the main issue. Under their questioning Hodges said that upon certain conditions the miners would assent to a postponed consideration of the principal demand. Lloyd-George accepted the conditions, but the miners divided upon the question of supporting Hodges, who it was charged had exceeded his authority. The railway men and transport workers apparently eager to get out of the situation, declared that they would support the miners no farther, which ended the threat of a general strike, to the great disappointment of the communistic trouble-makers in England.

At this writing the miners are still striking, and as the mines have been closed nearly one month, many industries have been obliged to close, thousands of workers have been forced into idleness, and the end is not in sight.

### Meaning of a General Strike

The miners had previously exhausted their strike funds and many of their families are now dependent upon public charity. Their strike policy disregards the right of the public to have anything to say in the settlement of the controversy, but they look to the public for support, on the theory that they have a valid claim on it. They seem to overlook the fundamental principle that all social rights and obligations are reciprocal. They resent the idea of being "starved out," while attempting to starve all society into giving them their own way.

The radicals among the miners are denouncing the other labor organizations for deserting them. They think victory was assured if only their allied workers had stood by them. The general strike is the master scheme in the minds of all revolutionaries. They are eager for it. They are obsessed with the idea of bringing all society to its knees. It is the primitive idea of having your own way by force, which mankind is slow to relinquish.

They assume that a general strike would have compelled the regularly constituted authorities to give way, but why so? Suppose all industry and transportation was stopped and the importation of food into England was brought to a standstill: it would be a great display of power, but who would suffer and what would be accomplished? Society would

be reduced to a state of anarchy, but nobody would be any worse off than the strikers and their families.

The authorities, appalled at the amount of suffering resulting, might yield, or the population might rise in desperation and overturn the Government in order to have the terms of the strikers accepted, but in either case violence would triumph and orderly Government through the ballot-box would be overthrown. It is impossible to believe that the rank and file of the labor organizations desire such a change. It is more probable that any seeming approval of policies leading to it is prompted by sympathetic desire to aid their fellows in specific demands, rather than by any settled purpose to set back the civilization of the world. The British labor organizations associated with the miners went to the brink, and turned back.

Their responsible leaders, who have been broadened by studious reading, by service in Parliament, by contact with men and affairs, and by experience in dealing with factions within their own organizations, know that the welfare of the working millions cannot be promoted by going back to the rule of force. They know that in a free society men always will differ about public policies and that the first step in social progress consists of agreement that all differences will be settled by reasoning together and taking a count of heads, majorities to rule.

Labor organizations now determine when a strike shall be declared by taking a ballot, but if they vote to destroy popular government for the nation, and seize power for themselves to the exclusion of other members of the community, how long will it be before factions within their own organization will find a way to seize power there?

#### The Rights of Groups Against Society

The questions presented by the British strike are fundamental to organized society. They will have to be settled everywhere eventually in a manner consistent with the general welfare. It must be always borne in mind that the increasing population compels a constantly closer and more effective organization for production and distribution. The standard of living will depend upon increased command over the natural resources, improved methods and greater efficiency in industry, and more effective organization in the general exchange of commodities and services.

The grand purpose of the combined organization is to supply the wants of the population. There must be specialization wherever it will lead to greater knowledge or skill, and in any way produce better results. This means that there must be a high degree of cooperation and mutual dependence between all the factors in the organization, and this means reciprocal rights and obligations. Neither individuals nor groups of them have any standing in talking about their own rights unless they are willing to have them considered in connection with the rights of the rest of the community. There is no occasion to assert or define our rights except as they come in contact with the rights of others. The denizen of a wilderness who never came in contact with another person would have no occasion to even think about his rights, but if other persons settled about him, questions of right relations between them would arise. This is the meaning of "rights," as it is bound to be interpreted.

The whole question of rights must be approached with an understanding that no vested rights or inherent personal rights, can stand in the way of the progress of society. What may have been rights will cease to be rights when that time comes, although the interests of society will still require that a right way of dealing with them be followed. All the institutions of society and doctrines of personal rights must stand or fall by their influence upon the permanent, expanding interests of society.

#### The Right to Strike

If these principles govern, what becomes of the "right" of a group of men who have assumed the responsibility for a certain necessary service in this complex social organization, to agree among themselves to suspend and tie up that service, unless any demands that they choose to make are complied with?

It is evident that this right—if it is a right—is one that cannot be equally enjoyed by the workers in all employments. The labors of the farmer are as important and indispensable as any, but when it comes to forming a combination to work only 8 hours per day, or to go on a strike, the farmers are at a great disadvantage.

Again, there are some services which cannot be even briefly interrupted without great harm to the community, as the railway service. The threat of a railway strike is very much more serious, and therefore more potential for accomplishing its purpose, than a threat to suspend almost any other service. If the principle is sound that the owners or employes of any branch of industry have an absolute right to shut it down whenever they please, regardless of the results to the public, then the railway employes are in a stronger position than almost any other group. If this theory is sound, wages will tend to be adjusted, not in accordance with the skill or ability required for a task, or the time required to prepare for it, or its arduous nature,

or any other consideration but the strategic position that the persons in occupation may hold for enforcing their demands.

Of course the railway men, farmers, coal miners, and every other class will protest that they have no desire to enforce unjust demands, and we freely allow that few men consciously have any such intention. They seldom do wrong without being able to justify it somehow to themselves. Usually they are convinced that what they want to do either is not wrong or that it is no worse than somebody is doing to them, or that if they don't do it somebody else will. It is sufficient to say that no one should want to be the sole judge of what is right between himself and others, or of his own responsibilities and obligations in the community. Questions of this kind will be settled in the long run by public opinion, in accordance with principles that have their foundations in the moral law. Every right-minded person will want to square his own action by these principles when he understands them, and that will be better than having them enforced by law without his understanding them.

#### What Is Industrial Slavery?

The advocates of the right to strike under any and all circumstances claim that any qualification of it would mean industrial slavery. It is difficult to see that the people in occupations so restricted, whether the inhibition be by public sentiment or public law, would be any worse off than the millions of unorganized wage-earners who rely upon their undisputed right to quit their jobs as individuals whenever they choose to do so. Public employes do not strike, but they are at liberty to better themselves as they can, and the fact that school teachers and others in great numbers have been finding other occupations in the last few years has exerted a steady pressure for higher pay. It is not necessary for everybody in a given occupation to quit in order that the pay may be raised; the withdrawal of a small proportion creates a competitive demand which if continued is irresistible. There are many, probably a majority, in every occupation who for various reasons cannot readily change, but there is a good proportion who can change, and at all times a not inconsiderable number considering a change; moreover, every occupation requires constant accessions to keep its numbers stationary. It follows that if compensation anywhere falls below the general level of other occupations, all things considered, a demand will develop and exert a constantly increasing pressure until the discrepancy is corrected.

This is the natural relation between the occupations, and the most desirable one, if they are all conceived of as parts of a cooperative system. The best results would be obtained by a free movement between the occupations, which would tend to adjust compensation according to the ability required, rather than according to the bargaining power of groups, at the expense of each other.

The greatest source of impatience and controversy in economic affairs is the failure of the various groups to think in terms of their common interests and to take account of the natural forces that always are in play, if let alone, adjusting inequalities. Nothing is fixed or certain in the business world, but there is an automatic tendency for things to come into balance in normal and fair relations. And yet people are persistently thinking that things must be taken in hand and adjusted, forthwith and by main strength and to suit themselves. They do not understand the relations between the occupations, or the natural influences that are constantly bearing upon wages, prices, profits, interest rates, and all the factors in the great cooperative combination. They think these factors may be controlled to a much greater extent than is possible, and do not see the reactions and offsets that take place wherever arbitrary efforts to control them are made.

## The Fundamental Trouble.

The real gains of society, as we have often pointed out, come by improving the methods of production so that there will be more to divide, instead of by the rival efforts of individuals and groups to get the better of each other. Organization that is intelligently guided, so that its efforts for group advancement are consistent with the general welfare, can be very helpful, but if ignorantly directed for the purpose of advancing the interests of one group or class at the expense of all the others, they simply throw the industrial situation into confusion and do injury to all.

That is the chief trouble at the present time. Society is organized almost to death. Industry is hampered and checked on every side by the efforts of groups to enforce demands which interfere with the free play of economic forces, create friction and waste, and even when successful finally nullify each other to such an extent that there is no net gain to any one.

No class is free from blame in this situation, and the remedy for it is in a better understanding of common interests. People act according to their knowledge and beliefs, and the state of disorder and hostility that exists in industry is due mainly to ignorance of the actual effects of the policies commonly pursued. If the people of the various groups think that the only prospect of bettering their condition is by strife, and that some people

are better off than others simply because they have had some advantage over them, of course there will be strife.

### Mistakes of Organized Labor

The chief criticism of the labor organizations is that to a great extent this idea has been uppermost with them. They have cultivated the idea of class struggle, rather than of a fundamental harmony of interests.

The view of industrial relations held by too many labor leaders was expressively stated by Mr. Garretson, head of the order of railroad conductors, in a speech before the Economic Club of New York, December 11, 1916, in part in the following language:

> **Industrial war is precisely of the same character as actual war. No battle has been fought in establishing the rights of mankind, either real or fancied, where the hospital hasn't been filled afterwards, and the corpses left upon the field. And it is just so in industrial war. If you complain that four hundred thousand men held up the Government, what will eight millions of them do, if they can, to hold up the Government?**

They have encouraged the idea of rebellion against the regularly constituted authorities unless their own views were adopted in public policies. They have concentrated their attention upon immediate and direct gains to their members, with too little regard for the effects of their demands and methods upon the general welfare. We do not question their sincerity in what they have done. We only say that their actions are the natural result of their view, and that this view has been too limited for the best results even to their own members, and their policies have created much antagonism to their organizations which might have been avoided.

Just now they are agitated over the stand for the open shop that has been taken by many American employers, but that stand is the natural result of the arbitrary methods that they, themselves, have used too often, and of the tendency to curtail production which is the natural result of their teachings.

Every organization that aspires to wield great power in the community must expect to justify its claims by the intelligence with which it exercises power and the consideration which it shows for public interests. By these tests the labor organizations have not justified their plea for a largely increased authority over industry. The British situation affords the best justification that has been offered for the policy of the United States Steel Corporation.

### Why Houses are Scarce and Rents High

If it should be thought that the unreasonable acts of labor organizations in Great Britain afford no reason for drawing conclusions about union policies in the United States, there will be no difficulty about finding plenty of instances in this country.

Some of the practices enforced by the unions in the building trades will serve as an example. The Boston Herald gives account of a few as follows:

> Anybody who can crank a Ford car can operate a gasoline diaphragm pump. Any man looking for a snap is recommended to try for a pump job. If he lands one he will have to start the pump in the morning and stop it at night, and occasionally put a little oil on the places where the wear comes. Not many years ago the boy who carried water to the workmen on a building job would run half a dozen such pumps. Nowadays an engineer runs a single pump and gets $10 a day for starting it, stopping it, and pouring on the oil. Each day he has several hours to read the papers, smoke and chat—and consume his noonday meal. But the meal time is also pay time.
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> In one actual case after the operator had drawn his first week's pay the business agent of the Hoisting and Portable Engineers' Union wanted to know about "that $2 shortage. That man only got $8. He's $2 shy on the noon hour." The employer replied: "Why the man does nothing the noon hour." The agent came back with, "Well, doesn't the pump keep on and isn't he responsible?" "We—ll," said the employer, that's only an hour, so he's only entitled to $1." "No, sir," came the reply, "that's overtime and must be paid for as double time." And the pump man thereafter munched his food smilingly and watched that gasoline pump add $2 more each noontime for his pay envelope.
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> A great new building has been in process of erection in the Back Bay. It became necessary to get rid of the surface water that flowed into the excavation. To do this draining the builders installed an automatic electrically driven pump. A floating control started and stopped the pump as conditions made necessary. The entire apparatus was placed in a wooden shack under lock and key. Aside from occasionally oiling the motor the machine required no attention whatever. The union, nevertheless, under the rules declared that the pump must have the constant attention of an engineer. For the time thus "worked" the builder of that structure had to pay by that interpretation $168 a week.
>
> The union painter these days must use a brush of union dimensions. The narrower a brush the longer it takes to cover a surface or the more men must be put on a hurry job. So the union decrees that no brush more than 4½ inches wide shall be handled by any member of the union—which is only an indirect way of limiting output. Also the union rules say that no paint-spraying machine shall be used on a union job. Sprayers save time, so the union prefers to have painters do the work with brushes of prescribed dimensions. Not long ago in this city an employer began on a rush order to whiten some big walls with a sprayer. The union's watchman came in a hurry with his ultimatum: "Stop the machine or I order off the man." These sprayers, very useful for saving time and money on surface needing only a plain and protective covering, may not be used on any union job.
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> Other suggestive illustrations of union conditions are easy to cite. A deck hand on a lighter or pile driver in use in wharf building may do nothing whatever but watch an anchor rope, but he must be a member of the Wharf Carpenters' Union and be paid, not as a deck hand, but a wharf carpenter. Concrete, of course, is poured into wooden forms and the forms are later stripped away. Any laborer could take the planking down, but under the rules a union carpenter must do it, and he gets the pay, not of a laborer, but of a carpenter. Once the materials used in the work of a plumber have reached the first floor of a building only a plumber may handle them. Plain labor may unload them from car or truck and deliver them on the first floor, but then only a highly paid craftsman may touch them. The electric wiring for a concrete building is passed through simple light tubing concealed in the concrete. To handle, bend and place the tubing is an unskilled job, but it must

be done by union electricians, with results that loom large upon the pay roll. Similar conditions are true of the placing of concrete reinforcing bars and of sprinkler pipes.

Further: On a big Boston job a man on a concrete mixer and another on a derrick sat idle and a man on a pump had little to do. The employer needed a man two hours for a second mixer. He tried to switch one of the idle men. He could not do so without fracturing a rule. If a man had shifted he could not have gone back to his first job. Violation of the rule would have cost him $5. So the employer had to order a fourth man from the union. He came, worked two hours, and got a half-day's pay. If an employer fires an engineer he cannot employ another without an O. K. from the union's business agent, who in turn must have time to see if he shall order the first man back on the job as "wrongfully discharged."

A plumber sent out to do a job, although an experienced automobile driver, may not drive the employer's car to carry himself and tools. A regular chauffeur must be employed, and the job must be charged with his services as well as those of the plumber.

These are a few instances of many that might be given to show why rents are high and capital is scarce for building operations. It takes approximately twice as much capital to do the same amount of building as before the war, and so much capital is absorbed by taxation and high living expenses, largely resulting from policies similar to the above, that the needed supply is not available.

### Examples in the Railroad Service

While the railroads were under the control of the Government the classification of the employes was extended in a manner similar to that described above in the building trades.

Under the rules of the shop crafts in order to change a nozzle tip in the front end of a locomotive it has been necessary—

1.—To call a boilermaker and his helper to open the door, because that is boilermakers' work;
2.—To call a pipeman and his helper to remove the blower pipe, because that is pipemen's work; and
3.—To call a machinist and his helper to remove the tip, because that is machinists' work.

Before Federal control a machinists' helper or any handy man put in locomotive tips alone.

Similarly, railroads are required to employ members of three crafts—machinists, sheet-metal workers and electricians and their helpers—to make a repair to a locomotive headlight which was formerly handled by one or two men.

Mr. L. F. Loree, Chairman of the Executive Committee of the Kansas City Southern Railway Company, in a report to the stockholders of that company, dated April 5, 1921, describes the labor conditions on that road as follows:

The labor conditions growing out of the national agreements work to extremes that can only be described as absurd. For example, in going out of the shops at Pittsburg I met a workman coming in. As he approached the gateman, he reached up and took off the board a brass tag bearing his number. The gateman took a slip, punched the clock and handed the slip to him. I was advised that at the close of the day's work the workman entered on the slip a memorandum of the work on which he had been engaged and hung it on a hook on the side of his locker, where it was collected by the time clerk. For this he is paid one hour extra each week, and that whether he works a full week or a half day. This practice costs the company something like $50,000.00 annually.

The line between Pittsburg and Watts runs through the northwest corner of Arkansas. That State has a law requiring three brakemen to be used on freight trains. A freight train leaving Watts going north is provided with such a third brakeman. At Lanagan, the first convenient point in Missouri, he is taken off the train and put on the first southbound train and returns to Watts. He is, as you will note, simply a passenger. Human nature being what it is, a large part of the injustices and inequalities of railroad labor is due to the existence of a great mass of law-made and labor union-made jobholders on the pay rolls. This so-called Full Crew Law in Arkansas costs the Company about $50,000.00 annually.

We pay our sectionmen from 42½ cents an hour on the south end to 48 cents an hour on the north end of the line for 8 hours work, and time and one-half for the additional 2 hours where they work 10 hours. Labor is plentiful in the territory served at from 20 to 25 cents an hour for a 10-hour day, and less than this is being paid by farmers and other employers. This means that where labor can be secured for $2.00 a day we must pay $4.67½, and where labor can be secured for $2.50 a day we must pay $5.28. It is estimated that by a readjustment of wages of our Maintenance of Way employes upon a scale more liberal than that prevailing in the territory served the cost to the Company might be reduced by about $150,000.00 a year.

On one of our branch lines we run a passenger train making two round trips each day. On this train we employ a colored porter, who also acts as a brakeman. In 1909 we were paying this employe $44.80 per month. In 1914 we were paying him $47.80 per month. Due to the various changes made by the Director-General and continued by the United States Railroad Labor Board we paid him in—

| | | |
|---|---|---|
| November, | 1920 | $266.71 |
| December, | 1920 | 281.07 |
| January, | 1921 | 271.89 |
| February, | 1921 | 237.83 |

He could readily be replaced at $75.00 per month, were we freed from the shackles of the laws which fix both conditions of employment and rates of pay.

It is estimated that these abnormal rates of pay, with the allowances known as "feather bed" practices, "punitive overtime," etc., involve the Company in an expense in excess of $1,250,000.00 annually, for which there would seem to be no economic justification whatever.

The Chicago, Rock Island & Pacific Railway Company states that the number of its employes at the beginning of Federal control was 40,326; at the end of Federal control, 45,950, and on February 28, 1921, eleven months after return to private control, 34,531. Its total pay roll in the year 1917 was $40,195,-210, and in the year 1920, exclusive of back-time accruing in previous years, $84,315,395.

This company has published a statement showing specific instances of how the classification of labor under Federal control has affected its pay roll. A few cases are given herewith:

On December 31, 1917, there were two stationary engineers at the 47th Street shops, Chicago, whose duties consisted of starting machinery which operates the shops as well as starting the electric generator and operating circuit breakers. The salary of the day man was $100.00 per month and that of the night man $115.50 a month; both of them stayed on the job until the work was done. During Federal control they

were reclassified as electricians and placed on an 8-hour day basis with overtime at the rate of time and one-half. One man received back pay amounting to $1,467.59, and the other received back pay amounting to $1,846.86. Their present pay is 85c. an hour, and since they are on an 8-hour basis it is necessary to employ three men at the 85c. hourly rate to do the work formerly done by the two; and the monthly pay of each of these three men averages $204.00, plus overtime—a total of $612.00, plus overtime, for work formerly costing $215.50.

On December 31, 1917, the last day prior to Federal control, we had two call boys at Estherville, Iowa, whose duty it was to notify the crews of the time to report for duty. One of these boys received $49.50 per month and the other 22c. an hour, or about $68.00 a month, for a 12-hour day. They have been reclassified under the so-called Clerks' National Agreement, and each now receives approximately $190.00 per month.

Engine Watchman, Sherrard, Illinois. Sherrard is the end of a branch. In December, 1917, the laborer who was paid to watch the engines received 25c. an hour, and earned in that month a total of $87.00. Under various wage awards the pay was increased to 53c. an hour, and the amount paid the watchman in January, 1921, was $196.43.

Shop Engineer, Manly, Iowa. Formerly paid $115.50 per month. As he did a certain amount of switchboard work, he was re-classified as an electrician, was granted an electrician's rate of 68c. an hour with overtime, received $1,393.19 back-pay and is now paid 85c. an hour, or $176.80 a month, with the usual overtime.

Commenting on cases of this character, Eugene Davenport, Dean of the College of Agriculture, University of Illinois, in a letter to the Association of Railway Executives, said:

What would happen if the farmer took the same attitude in his business that labor takes in railroading?

Suppose, for example, that no farm hand would cultivate corn without a helper.

I cannot see how we can live as a country and get ahead when a large share of our people are intent not upon seeing how much can be done in a given length of time, but rather how much money can be gotten for a nominal service.

### The State of Mind

The significant thing about these cases is that they reveal an attitude of mind. Similar practices are being systematically extended in all branches of industry where union labor is strong enough to establish them. The policy is based upon the theory that it "makes work," or, in other words, creates a larger demand for labor. This is a fundamental fallacy, opposed to all industrial progress. Unionism has done good things and has fine possibilities, but this fallacy if cherished will defeat all of its good aims and aspirations. It is not a minor fault, to be passed over lightly. It forbids the extension of confidence, for it is a disqualification that goes to the very heart of the question whether organized labor as now directed is entitled to the confidence and support of the public. Its wisest friends will not mince matters at this point.

We have frequently directed attention to the fact that the most responsible labor leaders are aware that this policy is short-sighted and ruinous. They disclaim responsibility for it and frequently endeavor to correct the tendency, but much of the time they have all they can do to keep their seats without doing very much to guide the steed they are riding. In the past, labor has been much more productive in the United States than in other countries, largely because of the better equipment of machinery, but also because the "go slow" policy had not been developed to the extent that it existed elsewhere. Since the radical agitators have been "boring" into organized labor in this country the deadly infection has spread.

### An Intelligent Labor Leader

Mr. J. T. Brownlie has been for many years head of the Amalgamated Society of Engineers in England, and one of the most respected labor leaders. A year or so ago he felt so concerned over the tendency in labor ranks to curtail production that he wrote a letter to Mr. Bowerman, Secretary of the Parliamentary Committee of the Trades Union Congress, setting forth the social necessity for greater production and the importance of having organized labor cooperate heartily to secure such increase. He took his text in part from a quotation from a statement made by Mr. Hoover, which was as follows:

Unless productivity can be rapidly increased, there can be nothing but political, moral and economic chaos, finally interpreting itself in loss of life on a scale hitherto undreamed of.

Mr. Brownlie's letter made him at once a target for the radicals, and having stood it for a time, Mr. Brownlie came back with another letter, in which he re-stated the argument and used the comparative figures of production per head in England and the United States. We quote from the second letter below:

I do not know whether it is the intention of Mr. Bowerman's Committee to do anything in this matter, but I consider it is the proper body to do so. Throughout its long and creditable career the Parliamentary Committee of the Trades Union Congress has time and again awakened the mind and stirred the conscience of the nation in regard to social and industrial questions. Therefore the question of arousing the nation to the urgent importance of increasing the supplies of the vital necessaries of life is a natural corollary to the work which it has undertaken in the past.

During the past five years nominal wages have increased considerably. In most trades the workers have received wage advances of 100 per cent, and in some trades of over 100 per cent. Notwithstanding these advances in nominal wages, real wages have fallen, owing to enhanced prices. Therefore, to enable the present nominal wages to become real wages, it is imperative that the essentials of life should be produced in abundance and thus lower prices, and at the same time help to avoid the sufferings and miseries anticipated by Mr. Hoover.

During the war the Government found it necessary to organize the man-power of the nation for the purpose of accelerating and increasing the production of the tools of the war. To enable the nation to recover from the ravages of war, to stabilize the advantages of peace, to make the world safe for democracy, to avoid national bankruptcy, to realize as rapidly as

possible that better state of society which has been promised by the powers that be, it is imperative that the nation's man-power should be organized to produce the requisites of peace in the interests of the community. So long as the present social and industrial system obtains; until such time as the people awaken to the necessity of democratically organizing the wealth-producing resources of the nation for the production of wealth, for use and not for profit, wages must necessarily be a matter of vital importance. It would appear from letters received that many of the writers are under the impression that wages are paid from some imaginary fund, as they give no indication that they appreciate that wages are paid out of production. Low production must inevitably mean low wages.

### Wages in America and England

The hourly wage rate for mechanics in the metal trades in the United States, as I am informed by the President of the International Association of Machinists, varies from 68 cents per hour to 80 cents per hour, or an average of 74 cents, or in other words, 3s. 1d. per hour; whereas in this country, the average hourly rate for 47 hours (including war advances and the 12½ per cent bonus) paid to the same class of workmen engaged in the same kind of work, is in the region of 1s. 8d. per hour, or 1s. 5d. per hour less than what is paid to our American brothers. The favorable position enjoyed by the American workmen in this respect cannot be said to be due entirely to trade union effort, as trade unionism in the United States is relatively weaker than it is in this country. What is the cause? The cause appears to me to be found in the following facts, taken from Dr. Stamp's interesting analysis of the estimated wealth and annual income of various countries at the outbreak of the war in 1914:

| | National Income. £ | Amount per head of Population. £ |
|---|---|---|
| United Kingdom ........... | 2,250,000,000 | 50 |
| United States ................. | 7,250,000,000 | 72 |

Under the present industrial order, production is primarily the function of the employer of labor; and, though the workers are not entirely free from responsibility, it is unjust to attempt to saddle them with being wholly responsible for a low output. Many of the industrial establishments in the country are badly equipped in regard to modern machinery. It is possible to increase output without imposing an additional tax upon the physical energies of the workers, as much of the physical energy that is going to waste through using obsolete machinery and faulty workshop organization may be observed.

My concern in regard to this vital and urgent question, apart from the above, is that all the labor in the country should be fully employed on useful work; also that that section of the community which renders no useful service to society should be called upon to earn its daily bread. He that will not work, neither shall he eat. Thousands of skilled workmen are being discharged from Government arsenals and dockyards without any prospect of immediate employment. Thousands of men and women of other grades of labor are similarly situated. Doles are no remedy for unemployment. Again I say, if the world is to avoid the catastrophe anticipated by Mr. Hoover, all must work to increase production, for the benefit of mankind and not for profiteers.

It will be seen that Mr. Brownlie is himself a reformer, a critic of the existing order. He avows himself as in favor of "democratically organizing the wealth-producing resources of the nation for the production of wealth, for use and not for profit," but he sees the necessity for using the existing machinery as effectively as possible while it is the only machinery available.

We would add that the existing industrial order is susceptible of gradual change into any other system which Mr. Brownlie and others of like aspirations can demonstrate to be more effective for the ends he has in view. The great body of the people desire, with Mr. Brownlie, that industry shall be so organized and directed as to achieve the greatest results for the welfare of all the people. Profits are justifiable and necessary as compensation for useful effort and as providing capital for further improvements in industry, the ultimate end being service to society as a whole.

When labor leaders hold and set forth the views advanced by Brownlie as above they are on ground where all good citizens would like to work them.

## Colombian Treaty.

The subject of international relations has been much under discussion since the war, and most people have seemed to think that nations ought to be able to get along in a neighborly fashion, without war and without enormous expenditures in preparation for war. The fruitful source of war is misunderstanding. Why not give some consideration to the view which the other party naturally holds, and which you would probably hold if you were in his place.

The Colombian treaty has been a case in point. It has been ratified under the recommendation of President Harding, and Colombia will get $25,000,000 in consideration of the fact that the canal is built through territory that long belonged to her and which she lost as an incident related to canal construction.

The payment of this sum is an act of good will and fundamental justice on the part of the United States. Strenuous objection was made in some quarters on the ground that we did not owe Colombia anything and that the payment would be an acknowledgment of wrongdoing on the part of the American Government, but it does not have that significance.

The facts, briefly, are as follows: the Government in power in Colombia in 1903 behaved in an unjustifiable manner in the negotiations over the canal. It was a one-man Government, the government of a Dictator, named Morroquin, who had been originally elected Vice-President, but who had unseated the President and put him in prison, where he died. This gave a certain regularity to Morroquin's occupancy of the Presidency, which he continued to hold. Under the constitution of Colombia it was his duty to call the Congress together, but he did not do it for five years, meantime exercising its functions as well as those of President.

He was the head of the only Colombian government, and all there was of government in sight. President Roosevelt negotiated with him a treaty for the right to build the canal, for which the United States was to pay $10,000,000. Then President Roosevelt opened negotiations with the French company to purchase their rights on the Isthmus for $40,000,000, but by the time this agreement was reached Morroquin, who had granted the French company a year's extension on its grant, concluded to repudiate both this extension and the Roosevelt treaty, with the intention, as President Roosevelt bluntly declared, of trying to extort more money. He called the Congress together for the only time in five years, and the Senate, which President Roosevelt affirmed that he absolutely controlled, refused to ratify the treaty. The Congress acted upon no other legislation in this session. President Roosevelt was convinced of deliberate bad faith.

The United States had been balancing between the Panama and Nicaragua routes, each of which had strong advocates in the Congress and among engineers. The people of Panama, alarmed at the prospect of having the canal built in another place, which would have ended their hopes of importance, revolted, and declared Panama an independent republic. President Roosevelt promptly recognized its independence, and entered into a treaty with it for the Canal Zone, in which treaty the United States guaranteed the independence of Panama. The $10,000,000 named in the treaty with Colombia was paid to Panama. All countries promptly followed us in the recognition of the independence of Panama, and the province and canal were lost to Colombia forever. Of course Colombia would have made short work of the Panama republic, but for the backing of the United States and that is the basis of any obligation that we have had to Colombia.

It was charged that the American government promoted the rebellion of Panama, but President Roosevelt positively denied this, and as a matter of fact the rebellion needed no promotion. The people of Panama were desperate, and rebellions were not an uncommon occurrence in Colombia.

President Roosevelt's action in taking advantage of the situation was provoked by the attitude of the irresponsible government of Colombia. It was justified for the time being and as a means of out-maneuvering that government, but those considerations did not quite close the case. The people of Colombia were entitled to some consideration at the hands of the United States, even though they had a Dictator who was a law unto himself. He was a temporary and passing incident in the relations between the two countries. That is the reason why there always has been a strong sentiment in this country in favor of a liberal settlement that would make the people of Colombia feel that they had not been flouted and contemptuously regarded by their big neighbor, and why the United States is paying, not the $10,000,000, originally agreed upon between the two executives, but $25,000,000, after paying the $10,000,000 to Panama, besides giving Colombia all the rights in the peaceful use of the canal that we have ourselves.

This has been done because the people of the United States have had consideration for the people of Colombia and for their natural feelings, and have been resolved to do their full part in maintaining friendly relations.

## An Example of Reconcilation.

The newspaper report of the discussions in the recent sessions of the League of Nations at Geneva, Switzerland, contained a brief statement by Sir Robert Cecil which ought not to be lost. He is the son of the late Lord Salisbury, at different times Premier of Great Britain, and who held that position at the time of the Boer war in 1899-1900. General Smuts, one of the Boer generals in the war is now Premier of South Africa, and being unable to attend the sessions of the League, appointed Sir Robert Cecil to act as the representative of the "Union of South Africa," which is the dominion under the British Crown organized from all the South African colonies and the Transvaal, or old Dutch Republic.

The Council of the League had been discussing means of conciliating the several conflicts pending between nations, when Sir Robert is quoted as speaking as follows:

> In conclusion, Lord Robert Cecil said that if he were disposed to be a hostile critic, it would be on the ground that the Council might have done more than it had done. "Undoubtedly we have begun well. Do not let us be afraid of our power. Let us go on from strength to strength. . . . I stand before you as a substitute of General Smuts. Think of that! General Smuts not very many years ago was one of the most redoubtable of the successful commanders of the forces of the Boer nation when they were in arms against the British Empire, and I was the son of the Prime Minister who conducted the war on behalf of the British Empire, and yet it now comes about that the General of the Boers comes to see the son of the British Prime Minister and asks him to appear before the Assembly of the League of Nations as the best exponent of the General's views on international subjects. How does that result come about? Not by timidity. Not by shrinking from bold action, but by an act of trust in the power of the people, an act which I do not hesitate to say at the moment seemed to me rash and perhaps premature. It has more than justified itself by results. Surely this is an example to us. Do not let us shrink from measures of pacification and reconciliation."

1812

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, June, 1921

## General Business Conditions.

THE general business situation has changed but little in the past month, but certain developments have taken place that afford a substantial basis for better feeling. The most notable of these is the acceptance by Germany of the findings of the Reparation Commission and the terms of settlement based thereon. This has averted the strain and uncertainty that would have resulted from an invasion of Germany by allied troops, and probably will result in a considerable reduction of the standing army of France, besides leading to a quickening of industry in Germany and a more settled feeling in all Europe.

The elections in Italy which took place on May 22d yielded results encouraging to the stable elements of society. Although the coal strike in England has not been settled and the industrial situation is very serious from lack of fuel, the efforts by the radical element to make the strike the focus of a revolution have utterly failed.

In this country the Railroad Labor Board has followed up its action in releasing the railroads from the costly national agreements with the labor organizations, made while the roads were under government control, with an announcement that prevailing conditions justified a downward revision of wages, and a decision as to the amount of such reductions in the cases before it would be rendered June 1st, reductions to take effect July 1st. Other complaints are now being filed, and it is assumed that the revision will extend to the entire railroad pay-roll and that it will result in a material degree of relief to the railroad situation.

The trend of wages has continued slowly downward, the United States Steel Corporation falling into line during the month with a reduction of 20 per cent. In this case and generally the situation has been accepted by the workers in good spirit as a necessary readjustment to changed conditions.

The trend of prices has continued downward, but apparently the bottom has been reached with the principal staple commodities. Wheat has had a rise which if sustained will be of material benefit to the farmers, and the other grains have advanced slightly. There are some symptoms of improvement in foreign markets for cotton goods, and now that the peace settlement has been made there is hope that with a settlement of the British coal strike the dead-lock in world trade may be broken. The whole situation is abnormal, as there is under-consumption in all countries for want of the products that are unsaleable.

### The Crops

The winter wheat crop in the Southwest has been reported as suffering from drought, the estimate for Kansas being materially reduced. Evidently there was a considerable short interest outstanding, which was impelled by the crop news, together with the steady export movement, to cover its position, and the result was a rise at the outside of about 60 cents per bushel in the May delivery, while the July delivery advanced about 25 cents. For the 46 weeks ended May 19, the exports of wheat and flour from the United States and Canada amounted to the equivalent of 389,712,629 bushels, and for the single week ended at the above date the exports were 9,260,946 bushels. The movement from Argentina has been disappointing to those who looked for lower prices, being hampered by the port strike at Buenos Aires and the government's

**ANNOUNCEMENT**

MR. Charles E. Mitchell, President of The National City Company, was elected President of The National City Bank of New York at a meeting of the Board of Directors on May 3. He is the Bank's thirteenth president since its organization in 1812. At the same meeting, Mr. Eric P. Swenson, who has been a Director of the Bank since 1912, was elected Chairman of the Board.

policy as to export taxes. It is evident that the carry-over in this country and Canada will be small.

A report which lacks confirmation has been in circulation, telling of the movement of a cargo of wheat from England to Russia. However that may be, there is little prospect of exports from any part of Russia this year and the supplies of the Balkan countries will not be large enough to afford any contribution to Western Europe. Crop reports from other countries are generally favorable.

Common opinion about the cotton acreage is that the reduction from last year will be about 30 per cent, and that the restriction in use of fertilizers will cause a further curtailment of the crop. Cold weather has retarded planting and germination and the outlook at the beginning of the season is for a substantial reduction.

Dairy products have been about steady during the past month, but are going into cold storage for next winter at prices not above those of the pre-war period.

The live stock markets have been fairly well maintained during the month of May, hogs at Chicago holding above $8.00 until the last days of the month, when they broke through that price. The cattle and sheep markets have about held their previous position.

The weather has been cold and the season is a little backward, but the soil over the leading farming states is in good condition, labor is plentiful, and the crop is being put in with costs largely reduced.

### Industrial Activity

The industrial situation in this country continues to be uneven and on the whole without pronounced development. The industries making goods of common consumption, and in which depression has existed for practically a full year, such as the manufacture of clothing and shoes, have experienced a revival, old stocks having been depleted to a point where dealers are obliged to buy to supply current trade. Hides and leather are in better demand and bringing better prices. Wool purchases by manufacturers have not been in proportion to the orders for cloth on their books, but they have been buying continuously and the tone of the market has been better, although prices are not much higher. Utah growers are reported as contracting at 17 cents, against 63 cents a year ago. The consumption of raw cotton by the United States mills fell off from 437,933 bales in March to 408,882 bales in April, but the latter exceeded the consumption of any other month since September. The consumption of April, 1920 was 566,914 bales.

The gains that have been made in some industries do not amount to complete recovery or of themselves promise that complete recovery is near at hand. That cannot occur until there is recovery in the other industries.

The iron and steel industry, which in past times has been considered the best index of general business conditions, is at the lowest level of production in many years, with no trustworthy signs of improvement aside from the general factors of the situation named above. It is waiting on better net revenues for the railroads, a revival of construction work, and more general prosperity.

The building industry lags, although at this season work should be in full swing. Permits taken out in April in 201 cities as reported by the American Contractor, aggregated $152,100,000; which compared with $200,234,-263 in the same cities in April, 1920, a reduction of 24 per cent. The high cost of building operations is everywhere given as the main reason for the absence of activity at present.

The demand for automobiles and tires has not been fully sustained, indicating that the April activity was seasonal and in part temporary. Price reductions are general. Business in this line in the agricultural districts has suffered a severe set-back, which is no more than might be expected when the sale of farming implements is almost at a standstill.

## Credit Conditions.

Although the volume of bank credit still is much above normal proportions, it has been largely reduced since the first of the year, and the strain at the centers is much reduced. Apprehensions as to unfavorable developments in the credit situation as a whole are no longer seriously felt. The money markets are easing slightly, as bank loans are reduced, reserve bank rates in this country having been generally reduced from ½ to 1 per cent during the past month. The Bank of England rate has been reduced from 7 to 6½, and the Bank of Sweden rate from 7½ to 7. The Norwegian rate is 7 and the Danish rate 6½. The security markets have given a good account of themselves, the flotations in this country having been very large and well taken. In London the financial markets have been steady, notwithstanding the grave industrial situation.

Inter-bank borrowing among the Reserve banks has increased during the past month, the banks directly serving the chief agricultural districts requiring aid to enable them to meet the legitimate demands arising from the activities of the spring season. This has been expected and is necessary. Credit must be found to carry on the productive processes of the country. Obviously every section and interest is served by so doing. There will be no prosperity for "big business" or little business of any kind unless production

goes on—little freight for the railroads, trade for the cities, or deposits for the banks, if the crops were not forthcoming.

Bank deposits in agricultural districts have suffered by the one-sided decline of prices, which has been most severe upon agricultural products, with the result that where they are grown deposits have been drained away to pay the debts and balances accruing to other sections. The agricultural districts are rich in indispensable commodites and real wealth, but more than any other branch of industry agriculture is dependent upon world markets and world prices. It is temporarily embarrassed, as it has been at times in the past, but it will come back as it always has, and the whole country is interested in its having every practicable facility for maintaining production and for moving its products into the world markets where they can find distribution.

## The Reparations Situation.

The most important event of the past month has been the agreement reached between the Allied Powers and Germany as to the amount of the reparation payments. The total sum is fixed at 132,000,000,000 of gold marks, less the amounts already credited to Germany on account of payments and deliveries of various kinds, aggregating several billions of marks. The debt is to be evidenced by gold bonds, divided into three series, described as "A", "B" and "C." Series A, amounting to 12,000,000,000 gold marks will be delivered by July 1, 1921. Series B, will be delivered by November 1, 1921. These bonds will be distributed to the Allied governments according to the ratio of participation which they have agreed upon. They will draw 5 per cent interest and 1 per cent for a sinking fund. The remainder of the obligation, 82,000,000,000 gold marks, will be evidenced by the bonds C, which will be executed by Germany, but, unlike Series A and B, will be held by the Reparation Commission, and, according to the statement of the British Prime Minister in the House of Commons, will be issued according to the capacity of Germany to pay, as determined from time to time by the Commission.

Interest upon the bonds of Series C will be non-cumulative while in the hands of the Reparation Commission, but a surplus of payments over and above the amount required to meet interest and sinking fund payments on Series A and B will be credited as interest on Series C.

Payments by Germany are to be made, first, in a fixed annual sum, approximately $500,000,000, in quarterly installments, and, second, in a variable sum amounting to 26 per cent of the aggregate value of German exports from year to year. The flexible character of the last provision, and the fact that it adjusts the amount of the payments to the trade and prosperity of the country, has provided the basis upon which an agreement was reached.

Of the $500,000,000 fixed annual payments, $125,000,000 was to be paid by June 1, $125,000,000 more by July 1 and thereafter every three months.

#### First Preferred, Second Preferred and Common

The aggregate amount of the A and B bonds is equivalent to about $12,000,000,000, and is not far from the amount that Germany had previously offered to pay. These bonds are counted upon as marketable assets. M. Jaspar, Minister of Foreign Affairs for Belgium, upon his return to Brussels from attending the meeting of the Supreme Council at which the scheme was adopted, gave out an interview in which he stated that the Reparation Commission would sell them to neutrals and Americans, and is quoted further as follows:

> What was especially interesting in this financial scheme was that the indemnity due to the Allies from Germany as a political debt would become, by its sale to Americans and Neutrals, a commercial debt, and when once a certain quantity of these bonds was in foreign hands the whole credit of Germany would be affected if political preoccupations once more came into play.

The fact that the bonds of Series C are not distributed, and the statement of Mr. Lloyd-George concerning them, shows that their value is regarded as prospective and more or less uncertain. If industry and trade the world over have great expansion—if invention, capital accumulations, and the development of regions like Russia and South America increase the total of international trade and Germany secures a liberal share of it, Series C may become a good asset. A large part of Germany's pre-war trade was with Russia and Eastern Europe, and conditions are not favorable to speedy recovery in that quarter.

#### Sums Likely to be Realized

Mr. Lloyd-George, in describing the plan of variable payments, stated that the proceeds in the early years would not be sufficient to provide the interest upon all the bonds, but that the amount would increase with the recovery of German trade. He said that before the war German exports amounted to about $2,500,000,000, and that at the present time the same physical volume would amount to about double that sum, which would seem to be rather a liberal calculation in view of the recent decline of prices. If exports should amount to $5,000,000,000 per year the total sum available for payments, including the $500,000,000 fixed sum would be about $1,800,000,000, approximately 6 per cent on the bonds of all three series.

German exporters are to turn over to the German government foreign bills amounting to

the required percentage of the value of the exports, and the government will pay these over to the Reparation Commission, reimbursing the exporters in German money. The plan does not contemplate that the exporters shall bear the tax, but merely that they shall supply the means of paying it. The German Treasury will have to reimburse itself by domestic taxation, and that is where the test of the plan will come. Can that amount of taxes be collected and exports at the same time maintained at the required rate?

#### Will the Plan Encourage or Discourage Exports?

Objection has been made to the plan of basing payments upon German exports, on the ground that it would stimulate them, but the plan is based upon the sound theory that the payments must be accomplished by means of exports. It is not clear that the policy will stimulate exports. It seems more likely to prompt Germany to be more self-contained than it has been in the past, as it is safe to say that not much international trade is carried on at a profit as high as 26 per cent. As the individual exporter does not make the payment, his incentive to sell is not directly affected, but apparently the influence upon national policy naturally will be to discourage imports, which must be paid for with exports.

#### A Definite Settlement

Naturally the question rises whether or not this is a final settlement. It promises to be such, at least in the sense that under the plan there will be a practical demonstration of what Germany is able to pay. There has been room for wide differences of opinion upon this point, and these have been the main obstructions to an agreement. The ability of Germany to pay, as we have heretofore pointed out, depends in part upon the willingness of other countries to buy her products, and in part upon the willingness of the population to work for low wages and consume little in order that their products may be sold cheaply and exported in large volume. The undertaking is an experiment in indemnity-collection, in sociology and in world trade. The Allies are basing their expectations of getting anything above about $12,000,000,000 upon the recovery and growth of German exports. If they fail to rise as anticipated, there will be nothing to do but accept the situation, and perhaps eventually modify the fixed terms, but it does not seem likely that any serious crisis will arise again over the question of indemnity payments. In view of the difficulties in which the settlement was involved, and the unpromising state of negotiations a few weeks ago, this is a fortunate outcome.

#### Making Way for Constructive Forces

The settlement, therefore, may be considered a long step toward the revival of trade and industry in Europe. It was necessary that a settlement be had before the constructive forces could be set to work in earnest. With this accomplished, the enterprise and business acumen of all countries will set to work to revive the old international relationships, and to supply the wants and utilize the industrial capacity of the population of Europe.

It will take time to bring order out of the existing confusion, but as progress is made and confidence grows, the new development will be accelerated. There is reason to believe that the great body of the people throughout Europe are sick of agitation, strife, idleness and privation, and would like to have peace, order, work and regular pay days. Once conditions are settled and the people everywhere turn their minds from agitation to industry in a spirit of co-operation, the improvement should be rapid.

Europe has great need for the food products and raw materials of the United States, and although the means of payment are not at hand that difficulty surely can be overcome, once it is evident that the period of disorder is past and that an era of reconstruction and progress has really begun.

## British Coal Strike.

An illustration of how the interests of nations are knit together is afforded by the relation of the British coal strike to the Spa agreement. That agreement, entered upon last Fall, required the German government to increase its deliveries of Ruhr coal to France to 2,000,000 tons per month, which in view of the depression of industry that soon followed, proved to be more coal than France could use in addition to her own supplies, and part of it was offered for sale in outside markets. Prior to that France was buying important quantities of coal from England, and with the loss of the French market, and with the French offerings of Ruhr coal outside, the demand for Welsh coal was so seriously affected that the price fell below the cost of production, the government to avoid losses turned the mines back to the owners and the latter inaugurated a wage cut so severe that it brought on the strike. When a situation is as complicated as the world situation is at this time no one cause may be charged with all responsibility for general results, but undoubtedly the Spa requirement has been a factor in this coal situation.

It is one illustration of the many appearing from day to day, showing that the fundamental interests of all nations are complementary and in harmony, instead of in conflict. The

competitive conditions upon which so much emphasis is laid are superficial and relatively unimportant, just as the competitive conditions which exist within each country are incidental to the organization of industry. Competition is the method by which individuals and nations find their places in the industrial organization, but there is work enough and business enough for all. Prosperity is found for all in a state of balanced industry, which enables each country to exchange its products for the products of others. The prostration of industry at present all over the world is due to a state of social and industrial disorganization that is preventing the normal exchanges from being made. The remedy is not in measures that arbitrarily interfere with trade, the far-reaching effects of which cannot be foreseen, but in closer co-operation to restore normal production and trade throughout the world.

## United States Government Finance.

The letter, dated April 30 last, addressed by Secretary Mellon to the Chairman of the Ways and Means Committee of the House of Representatives gave a succinct statement of the condition of the national finances which it would be well for bankers, business men, and all others who wish to be familiar with the problems now confronting the Treasury, to study. The interest upon the public debt alone now calls for a sum greater than the total revenues of the national government before the war, there are other heavy items of more or less permanent expenditures resulting from the war, and a higher scale of expenditures in all departments of the government. The number of employes on the civil list on June 30, 1914, was 482,121, on July 1, 1920 was 691,116, and on December 31, 1920 was 640,175. It is a difficult task to reduce the number of government employes, but the President has pledged his administration firmly to that purpose.

### The Public Debt

The total outstanding bonded debt on March 31, 1921, was $16,163,218,620. In addition to this there were short-term issues as follows:

| | |
|---|---|
| Victory Liberty Loan | $4,100,453,105.00 |
| Treasury Certificates (all kinds) | 2,754,841,450.00 |
| War Savings Stamps (net cash receipts) | 723,659,586.89 |
| Total short-term debt | $7,578,954,141.89 |

The Secretary calculates that a reduction of perhaps $1,000,000,000 in the floating debt may be accomplished in the next two years, through the operation of the sinking fund and other redemptions. Including $237,931,635.94 of debt upon which interest has ceased, the total gross debt on March 31 was $23,980,104,-397.83.

The $4,100,000,000 of Victory Loan notes are redeemable on June 15 and December 15, 1922, but fall due on May 20, 1923. All of the Treasury certificates and most of the War Savings certificates have maturities within the latter date. In all, they sum up a formidable array of payments called for in the next two years, which must be provided for in the main by refunding operations.

The absorption of billion dollar loans in time of peace by voluntary subscriptions obviously is a very different thing from the placing of a like amount in war time through a nation-wide organization which reached into every township and virtually fixed a quota for every neighborhood. On the other hand, a refunding operation does not call for new money; it replaces old securities with new, and returns to the money market all the money it takes from it. Nevertheless, such operations on a great scale may seriously disturb the financial markets.

### Refunding Operations

The Treasury doubtless will plan its offerings to induce the present holders of Victory notes to exchange them for the new issues, and to reduce the amount of the floating debt by conversion into investment securities, as fast as this is practicable.

It is evident that the situation is very different from that of war time, when the original flotations were made, and that the public must be approached in a different manner. Subscribers generally will consider the new offerings from the standpoint of personal choice and self-interest; they will take the new securities if they want them as an investment, otherwise not; which means that the interest return must bear a satisfactory relation to current market rates.

In other words the policy maintained in war time of placing government securities below the rate at which the market would voluntarily take them as investments is no longer practicable. The results of that policy in war time are now evident in the present market prices of the Liberty issues and in the comments of disgruntled former holders who sold at a loss. Moreover, the results of that policy have reached far beyond the losses taken by the bond subscribers. The low interest rate on the bonds dictated a low interest rate upon loans at the Federal Reserve banks, and by stimulating inflation probably increased the cost of the war to an extent that more than offset the saving of bond interest. And this influence upon the discount rate continued long after the government flotations had been accomplished, and hampered the action of the Federal Reserve authorities in dealing with the credit situation as it should have been dealt with in the year following the

armistice. The country would be vastly better off today if the advance of wages and prices which accompanied the increase of bank loans from the spring months of 1919 to the fall months of 1920 had not taken place. That ground is now being slowly and painfully retraced, while business stagnates and millions of people are out of employment. The public assents to rising wages and prices more readily than to falling wages and prices, but they never go up under the influence of credit inflation without coming down afterward with the same attendant conditions that we have today.

#### No Refunding of the Liberty Loans

There has been some agitation in favor of refunding the Liberty bonds, in order to raise them to the market level, as an act of justice to subscribers. There are very substantial objections to doing this. A refunding operation which included all of these issues would be on such a tremendous scale as to seriously disturb all security values and make the refunding operations themselves unsatisfactory. Finally, and this is conclusive in itself, so many of the Liberty bonds have passed out of the hands of the original subscribers at a loss that any change in the terms which would improve the position of present holders would occasion much dissatisfaction. The market price of the bonds has been adjusted to the interest rate, and hundreds of millions, in value, have changed hands on that basis. It is too late to change the interest rate, except as the bonds mature. Subscribers who hold until then will get their principal, dollar for dollar.

#### Several Refunding Issues

Secretary Mellon has indicated his purpose, instead of attempting a single issue to clean up the outstanding short-term indebtedness, to bring out several issues of different terms up to five years, which is the limit of his present authority, thus spreading the maturities in such manner as to facilitate future refunding operations, and postponing the permanent financing until conditions are more favorable than they are now, or can be in the near future. While he is pursuing this plan he will continue to offer Treasury Certificates as the market is able to take them conveniently, and to the extent that may be necessary to avoid overloading the investment market.

Undoubtedly this program represents sound policy. It is not desirable for the Treasury to do any long-term financing while the money market is under the pressure for capital that exists at this time. Better terms can be had later.

The ideal way to dispose of the Treasury certificates would be to pay them off gradually from surplus revenues, but the effect of business depression upon the revenues and the pressure for relief from taxation makes doubtful any calculation upon surplus revenues until times are more prosperous.

#### The Treasury Certificates

It is very desirable to clear the banks of the paper created by war-time financing as rapidly as possible and to get all of the public debt that must run for years out of the short money market and into the hands of investors. This would reduce inflation and confine the use of bank credit to regular business. It must be recognized, however, that a condition has been inherited from war-time which cannot be cured immediately. The banking situation is loaded with paper created for war purposes which can be disposed of only as the savings of the country are able to absorb it. There is no present fund anywhere to take it up. The investment market is in no condition to take several billions of additional government obligations. Interest rates in that field are 7 to 8 per cent, and large offerings would not only send rates higher and interfere with necessary financing for the railroads and industries, but affect all outstanding securities unfavorably. The effect of transferring government obligations from the banking field to the investment field would be to crowd other securities into the banks, making the latter even less liquid than at present. So long as the credit situation is such that the banks must carry some kind of government obligations, or of investment securities, it is best to accept Treasury certificates as the form most suitable for bank holdings.

#### Governmental Expenditures

Secretary Mellon states the ordinary expenditures of the government for the first three-quarters of the current fiscal year to have been $3,783,771,996.74, or at the rate of about $5,000,000,000 per year. He estimates ordinary expenditures in the fiscal year ending June 30, 1922, at $4,014,522,168, and total disbursements, including the sinking fund and redemptions of public debt, at $4,565,877,033. He estimates the receipts at $4,547,643,000, but includes in the latter $225,026,000 from interest on foreign obligations. He says of these estimates for the coming fiscal year:

> The estimates for the fiscal year 1922 are subject to great uncertainty as to both receipts and expenditures. The estimated collections of $3,700,000,000 of internal taxes are based on the provisions of existing law, and are $850,000,000 less than the estimated collections for 1921, chiefly because of the shrinkage in business. They are liable to be somewhat further reduced from the same cause. The estimated ordinary expenditures of $4,014,000,000 will on their part be affected by appropriations which are still to be made. The estimated expenditures of the War Department and the Navy Department, aggregating over $1,100,000,000 for 1922, will depend largely upon the military

and naval policy adopted by the Congress at the present session. The estimate of about $545,000,000 for payments to the railroads in 1922 is made necessary by the provisions to the Transportation Act, 1920, and increased estimates from the Director General of Railroads. In the absence of drastic cuts in military and naval expenditures, there is almost no prospect, according to the estimates, of any substantial available surplus even in the fiscal year 1922.

The Hon. James W. Good, Chairman of the House Committee on Appropriations, has contrasted the appropriations for the support of the Government in the years 1916 and 1922 as follows:

| | Fiscal Year 1916. | Fiscal Year 1922. |
|---|---|---|
| Agriculture | $22,971,782.00 | $36,404,259.00 |
| Army | 101,959,195.87 | 346,703,906.80* |
| Diplomatic and Consular | 4,040,446.66 | 9,326,550.79 |
| District of Columbia | 11,859,584.45 | 19,412,412.99 |
| Fortifications | 6,060,216.90 | 8,038,017.00 |
| Indian | 9,325,455.00 | 9,761,554.67 |
| Legislative, Executive and Judic. | 36,904,799.75 | 110,345,018.75 |
| Military Academy | 1,069,813.37 | |
| Navy | 149,661,864.88 | 396,001,249.23† |
| Pension | 164,100,000.00 | 265,500,000.00 |
| Post Office | 313,364,667.00 | 574,057,552.00 |
| River & Harbor | 33,982,000.00 | 15,250,000.00 |
| Sundry Civil | 122,940,750.79 | 384,196,760.41 |
| Deficiencies | 12,279,997.08 | 200,000,000.00§ |
| Permanent Annual | 121,567,207.00 | 1,335,776,360.87 |
| Miscellaneous | 2,402,923.34 | 20,000,000.00 |
| Losses Government Control Railroads (estimated) | | 175,000,000.00 |
| Federal Roads Aid (estimated) | | 100,000,000.00 |
| TOTAL | $1,114,490,704.09 | $4,005,773,642.51 |

* As it passed Congress, including Military Academy.
† As it passed the House, during the last Session of Congress.
§ Estimated.

Mr. Good has explained the principal increases as follows:

While the requirements for the next year will aggregate approximately $2,900,000,000 more than they were for the fiscal year 1916, this increase is due almost wholly to our participation in the recent War, and the increased cost of our military and naval establishments. Of this increase $922,000,000 is chargeable to interest on the war debt, $266,000,000 for the sinking fund to pay on the principal of said debt; $325,000,000 is chargeable to soldier relief and increases in pensions; $500,000,000 is for the increase for the National defense; $175,000,000 is to pay losses growing out of Government control of the railroads during the War, and $200,000,000 is included as a deficiency to take care of indefinite obligations created during the War. These items alone total $2,300,000,000, and are chargeable directly to war conditions. Included in the $4,000,000,000 is $100,000,000 for Federal aid in the building of public highways, and $231,000,000 is included as increased cost of operating the postal service, leaving less than $275,000,000 of the excess unaccounted for. This excess is made up of many minor items, and a close analysis of the items which make up this sum discloses the fact that a great deal of it is chargeable to war conditions.

### The Foreign Debt

The foregoing calculations upon refunding operations and Treasury revenues are made without including any prospective payments on account of the indebtedness of foreign governments, excepting $225,026,000 as interest in the fiscal year 1922. No statement is made as to the source from which this sum is expected, but it about corresponds to the annual interest on the British debt. The Chancellor of the British Exchequer, however, in presenting the Budget for the year ending March 31, 1922, to the House of Commons on April 25, stated that no estimate was included for interest on the American debt, but that such payment would begin in the fiscal year 1922-23.

The fact is that agreeable as it would be to have domestic taxation lightened and the domestic debt reduced by receiving payments upon these foreign debts, there are two sides to the question whether such payments in the near future will be advantageous to this country. We expressed the opinion last Fall that it would have been better for this country to have taken a renewal of the $400,000,000 then paid on the Anglo-French loan than to have had that amount paid, the reason being that for the time being we were more interested in having Europe buy our products than pay the old debt. That is still the situation. Whatever debt-paying power Europe has at present will be used more advantageously, both to those countries and to us, if expended for the American products of which those countries stand in need, and of which we have a surplus, than in cancelling the debts owing to this government.

Current exchange rates show that in all the countries of Europe the demand for the means of making private payments in the United States far exceeds the supply. The high rates for New York exchange prevailing throughout Europe are a serious obstacle to our exports now, and if the debtor government enter the exchange markets in competition with private buyers, these rates will be forced higher.

At a time when the uppermost question in American business circles is the provision of credits to enable Europe to buy in our markets, it would be strange policy for us to ask our debtors in Europe to use what buying power they possess for cancelling indebtedness to the United States Treasury.

The ultimate disposition of the foreign loans held by the United States government probably will be by refunding operations in this market, but they are hardly practicable until the foreign governments have reached the position where they can make the regular interest payments, and our trade relations have reached such a condition of normality as will permit of the payments being made without disturbing the exchanges and interfering with our exports. The exchange position is bad enough now, without having it complicated by debt payments.

#### Taxation Measures

The appropriate committees of both houses of the Congress are considering tax measures. The general sentiment favors a repeal of the excess profits taxes and higher surtaxes upon incomes. Mr. Good recommends higher taxes upon luxuries, including liquors for medicinal use and tobaccos. He recommends that the taxes on transportation be repealed. Secretary Mellon advises that sufficient new or additional taxes of wide application be adopted to bring the internal revenues to $4,000,000,000, after repealing the excess profits taxes and modifying the income surtaxes. He would like to have the taxes on transportation repealed, but as they produce $330,000,000 their removal would necessitate other levies to produce that amount.

The Economic Policies Commission of the American Bankers Association, reporting to the Executive Council of that body at Pinehurst last month, made the following declaration relative to the transportation taxes:

> We believe that the present taxes upon transportation, and particularly those based upon freight charges, should be repealed. The low prices now prevailing for commodities make the present costs of transportation much more burdensome to producers than when these taxes were adopted in the present law, and we are of the opinion that no part of our system of taxation is more harmful to business or more indefensible at this time.

This Commission reported the following general declaration upon the subject of taxation, favoring a broadening of the base of our system by having more consumption taxes, and particularly of taxes upon articles of luxury:

> It is an established principle that taxation should be so directed as to cause the least practicable interference with the normal operations and development of industry, for it is only by production that taxation can be met or the standard of living maintained and advanced. The narrow range of our taxation during and since the war has concentrated the collections upon that portion of the national income which if not so taken would be naturally available for increasing the capital fund, upon which industrial expansion depends. The effects are seen in the scarcity of capital for building and development work, high interest rates and stagnation of enterprise. While recognizing the soundness of the principle that taxes should be distributed with reference to ability to pay, we believe it to be in the interest of sound finance and for the general good that the base under our system of taxation shall be broadened by increasing the amount raised through consumption taxes. A recent statement by the Treasury Department makes an estimate, based upon official information, showing an expenditure in this country of approximately $22,000,000,000 per year for commodities classed as luxuries. While the list includes many goods of recognized utility, it clearly indicates ability on the part of the consumers to pay taxes for the support of the national government, and we hold the opinion that even if increased taxation based upon this consumption has the effect of reducing such purchases in some degree, the results will be less harmful than the curtailment of capital accumulations which results from the existing system. We, therefore, are opposed to narrowing or restricting the present policy of levying excise taxes, or sales taxes, and favor raising more revenues by this method. Instead of directing taxation so largely at what people are saving, we would direct more of it at what they are spending.

#### Military and Naval Expenditures

During the recent debate in the Senate upon the pending naval appropriation bill, a senator speaking in favor of reductions charged that the chief influence for large expenditures upon the navy was from the large banking corporations with foreign interests who wanted a big navy to protect or promote their private interests. The statement hardly can be dignified as a charge but it seems to be a current notion in some parts of the country, and in that connection it may be interesting to read the following paragraph from the report of the Economic Policies Commission of the American Bankers Association, taken from its report made at Pinehurst:

> In view of the enormous percentage of the annual budget which represents the cost of wars in the past, we urge that the estimates for the military and naval appropriations be carefully considered, with a view to reducing them wherever possible, and we trust that the influence of the United States Government will be exerted toward promoting an amicable arrangement among all nations for definitely limiting and reducing this class out of outlays in the future.

The bank officials who subscribed to and submitted the foregoing represented the following named institutions:

International Acceptance Bank, Inc., New York.
National City Bank of New York.
National Shawmut Bank, Boston.
National Exchange Bank, Baltimore.
Hibernia State Bank, New Orleans.
First National Bank, Los Angeles.
Omaha National Bank, Omaha.
First Trust and Savings Bank, Chicago.
Fletcher Savings & Trust Co., Indianapolis.
First National Bank, Youngstown.
Peoples State Bank, Detroit.

## The Proceeds of Foreign Loans.

We have had occasion to note heretofore that criticism was being directed at foreign loans offered in this market, on the ground that no obligation was imposed for the expenditure of the proceeds in the United States, and that in fact they had been used in some instances for making payments elsewhere. News reports from Washington recently have repeated criticisms of this character and indicated that they were being urged upon the attention of the public authorities.

Nobody will take issue with the proposition that the available capital funds of this country should be utilized at this time in ways most practically helpful to American business interests, and especially the producing interests. That is where everybody wants them to be used, and the fact is that with interest rates and exchange rates as they are that is practically the only use that can be made of them.

With New York exchange at a premium all over the world, and gold flowing in this direc-

tion wherever gold is free to move, it is evident that none of the proceeds of loans made in this market are likely to be withdrawn from this country in any other form than that of our goods or products. The fact that people in all parts of the world are paying transportation charges on gold to the United States, for the purpose of exchanging it for products, is sufficient proof that it is not advantageous under present conditions to borrow gold here with the purpose of moving it to some other market. Nothing of the kind is taking place.

It is true, however, that the position of the United States, and of New York as a banking center is now such that a bank credit in New York may be advantageously used as a means of payment in other countries. That is a position in which London at one time was preeminent, but New York is now a rival. The practice of using New York credit to settle accounts around the world is not disadvantageous to this country. It tends to make this a money center and encourages the people of other countries to keep funds here. The funds are not necessarily removed by being checked against; that is illustrated in common banking experience.

#### Examples of Transfers

One of the loans against which criticism was directed a year or so was the Norwegian loan, which was said to have been used to pay for the building of ships in England. Perhaps some of the credit was used in that way, but if so it was used in turn by English holders for purchases in the United States. What difference did it make whether the purchases in the United States were made by Norwegians or English? Similar criticism was made of the Swiss and Danish loans, but in each instance the credits were finally extinguished by purchases or the payments of debts in this country, whatever the intermediate use of the funds may have been. If the credits were useful in several transactions instead of one only it illustrates the complexity of international trade and the manner in which many interests are interrelated. It may be that the interests of several parties including ourselves are best served by having the credit pass through several hands. What if Switzerland drew a draft on New York to pay for coal in Germany and Germany used the draft to buy cotton in the United States? Such transactions illustrate a community of interests in which it is desirable for us to participate, for they tend to improve the entire situation.

The presumption always is in favor of allowing the parties immediately concerned to manage their affairs in the manner which they find most economical and effective, and in the matter of foreign loans it is enough that existing conditions will compel the final use of the credits of this country.

### Foreign Banks in New York.

The General Assembly at Albany adjourned without acting upon the bill to permit foreign banking institutions to operate branches in this State. Although some opposition has developed to this measure it probably would pass if a vote upon it was reached. Its failure to become a law puts the State in the light of pursuing a narrow and inhospitable policy, and reflects upon the whole country in that respect, because New York City is the banking center of the country and the place where foreign banks would like first to locate.

While foreign bank offices in New York would be competitors of New York banks that is a narrow view to take of the proposition. Foreign banking institutions would bring new business to New York. The more banks there are in this city, and the more countries they represent, the more deposits there will be here, and the greater New York will be as a world financial center, to the advantage of the whole country, the banking business included.

There is another feature of the situation which is entitled to attention and that is the fact that a narrow policy on the part of this country toward foreign banks desiring to do business here inevitably incites antagonism to American banks doing business in other countries. The United States, for the sake of its trade interests, is interested in a reciprocal policy in such matters. American banks have no reason to fear the results of such a policy and certainly all other interests should favor it.

### Why is Money Tight?

We have received the following from a bank located in one of the western states, describing with some detail the change that has come over the condition of a typical country bank in an agricultural community in the past year, and asking a common question:

"Where has all the money gone to?" This question has been asked me at least a hundred times in the last six months and has perplexed me sorely. I read the banking and trade journals assiduously but no where have I seen offered a comprehensive or satisfactory answer to this question.

Take for instance the case of our little bank which is a typical example of the general banking situation in this agricultural section of the country. A year ago our deposits were $915,000 and today they are $573,000, or a drop of $342,000. A year ago our loans were $875,000 and today they are $618,000 or a reduction of $258,000. A year ago at this time when we first felt the pinch of the present depression, we longed for the coming of fall so that we would realize on the coming crop and thus end the credit stringency. After having sold most of our crop, including hogs and cattle, we are today borrowing $165,000 as against $30,000 a year ago. Besides returns from the crop, our customers have sold within the last twelve months,

probably between $75,000 and $100,000 worth of Liberty Bonds. I reiterate that our institution is indicative of the general banking situation in this agricultural territory.

Among the causes one hears for the scarcity of money are: Reduction of deposits through liquidation of loans, speculation, extravagance, and foreign loans.

Of course, deposits have been reduced through a liquidation of loans, but if that is a primary cause, why would not the loans and discounts of the banks stand at the same ratio today as they did a year ago? It is my understanding that banks in every section of the country have less deposits than they had a year ago and that they are borrowing more money than they did at that time. Speculation does not seem to offer the satisfactory explanation because it would appear to me that speculation was merely a shifting of funds from one person or from one section of the country to another.

If I buy something from you for the purpose of speculation, I pay for it, at least in part, and it appears to me there is just as much money or bank credit, or whatever you may wish to call it, in existance after the transfer as before.

I cannot clearly see how extravagance would effect a diminution of funds, but that it would merely bring about a shifting of funds from one person or class of people to another. Suppose the middle west spent half its income on automobiles and silk shirts. The purchase price of these commodities would be received by manufacturers in the east and would be dispersed to laborers and through the regular channels of trade. The funds in the hands of new holders might not be as productive as though it had been retained in the middle west and invested in cattle, silos, and farm machinery, but I cannot see how this shifting would bring about any diminution of funds.

Foreign loans are advanced as a cause for the scarcity of money but my understanding is that the proceeds of these loans were used to retire a current indebtedness owed in this country or to purchase goods manufactured in this country, and that none of this money was exported to Europe.

None of the above causes, therefore, seem to offer a satisfactory explanation of the loss of hundreds of millions of dollars that have disappeared over night.

The conditions described result from the fall of prices which has taken place in the past year, and from the fact that the prices of all commodities have not fallen in like degree, and that bank deposits have not been replenished to make good the drafts on them to pay outstanding obligations.

#### The Inflation of Bank Deposits

During the period of inflation—that is, during the period when the banks were keeping down the rate of interest artificially, to help float government loans, and making loans freely, regardless of the restrictions which govern in ordinary times—bank deposits rose steadily with the loans. When a bank customer borrowed money, taking credit for it in his account, the bank's deposits were increased in that amount. And when the customer checked out the amount to pay for a Liberty Bond, or any other purpose, the check went into some other bank as a deposit, and thus it became purchasing power permanently in circulation until that borrower—or some borrower—checked against a deposit that had been actually earned and saved, and thereby extinguished a corresponding amount of credit. We followed this process of inflating our bank deposits up to about November 1, 1920. Some of our bankers were very proud over the "growth" of their deposits during that time, although they signified very little except that a carload of hogs, or wheat, or other products, was creating twice as big a credit entry as before the war.

#### The Depletion of Deposits

Over against the bank deposits and other current assets of every community there are always certain debts and liabilities, at home and outside. Deposits are being drawn upon constantly for the payment of these, but replenished by the sale of local products. Our correspondent's locality probably has heavy fixed charges to pay every year on account of borrowed money, fire and life insurance, and other like regular items, besides making payment for the goods of every kind purchased outside.

Money is only the medium of payments. The real source of the ability of that community to create bank deposits, make purchases, and pay debts is in its farm products, and as the prices of these have fallen that ability has been diminished. The bank patrons went on drawing upon their deposit accounts to pay their obligations, but their deposits were not replenished as before. The rate of outgo from the banks of that locality has continued on a higher level than the rate of inflow, and deposits have been steadily depleted. There may be as much money in the State as before, but money is only small change, used over and over; the original source of debt-paying power has dried up, and the common form of expression is that "money is tight."

Our correspondent found his deposits going down and naturally would slow up on making loans, and ask his borrowers to pay up. The effect of this would be to cause his borrowing customers to hunt up his depositors and borrow from them, thus depleting his deposits. So far as they drew on him to make payments in the neighborhood his deposits might not be much affected, but if the balance of payments was against that locality his deposits would go down and he would have to find the means of making the settlements outside. A banker is a book-keeper and settling agent for his community in its relations with the outside world. In this case the banker has borrowed $165,000 in order to meet his obligations to patrons and make the settlements required.

#### Service of the Reserve System

The agricultural districts have suffered more than industrial districts in this respect because their products have fallen more than manufactured goods; moreover they do not have the amount of fixed income from savings that some

of the older states have. Their outstanding indebtedness usually runs to other states. The Boston reserve bank was the first to experience liquidation in its own territory, its clients being banks that serve industrial communities. As the latter collected what was due them from other parts of the country, and as their operations slowed down, they paid off their bank loans, and the Boston reserve bank and later the Philadelphia and Cleveland reserve banks began to lend to the reserve banks of Chicago, Minneapolis, Kansas City, Dallas, Atlanta and Richmond, all of the latter serving districts in which agricultural interests predominate. The Chicago district has large industrial as well as agricultural interests, and within that district the same phenomenon has been witnessed, a shift of credit from the town industries to the support of agriculture. The payments from the country districts to the cities have enabled the latter to make payments to the reserve banks, while the latter have increased their loans to the country. This shows how the banking system of the country is interlocked and mutually supporting, to the advantage of all industries and all sections.

Some people, instead of recognizing the great service the reserve banks have rendered, are critical because they have not done more. It is natural for people to thing that somebody is to blame for every uncomfortable development, but the banks are neither responsible for the fall of prices nor able to completely protect the public from their ill-effects. The price fluctuations of the last six years have been directly related to the war. No country has escaped them, and no banking system could do more than in some degree mitigate the effects. A banking system cannot save a community harmless in the face of a world-wide shrinkage of values.

#### Extravagance and Indebtedness

It is not so much present speculation and extravagance that is contributing to tight money as past indulgences which helped to create the indebtedness now outstanding. It is the debts gaily created in boom times that make money tight when prices fall. The debts do not shrink with the loss of debt-paying power. This warning was sounded over and over again, while wages and prices were rising, until everybody was tired of hearing it, and they became so used to hearing it that nearly all disregarded it.

Foreign loans have not taken any money out of the country, but loans to enable American products to be sold abroad have been a factor in tightening the credit situation. If our correspondent had loaned a portion of his deposits to a meat-packer to enable the latter to carry European customers, the situation would be clear to him. Such a loan is proper and helpful, but credit cannot be loaned for such purposes and also for buying land, packing and oil stocks, automobiles and a thousand other uses in which expenditures were running high, without making "money tight" when settlement day comes.

We have been commenting upon the situation from month to month, endeavoring to show that the trouble is largely due to the unbalanced state of industry. The prices of what the farmer must buy have not fallen to correspond with the prices of what he has to sell. His purchasing power has contracted and he cannot go on buying the same quantity of goods at the old prices. Consequently great numbers of workmen are out of employment in the industrial centers, and money grows tight with them also. If all wages and prices declined together the situation would be better for both farmers and wage-earners.

#### Farm Products

By way of illustrating the situation we give the following extract from another correspondent, located in a small town in a good farming district of Minnesota:

> Personally I am looking forward to much better conditions, but until the price of raw material is somewhat increased or there is an enormous reduction in the price of the finished products, there is bound to be a great deal of discontent among the farmers, the producers of the raw materials. For instance, the farmer at our market here cannot get 10 cents a pound for his wool; eggs are 15 cents; butter fat 23 cents; 2 or 3 cents a pound for good cow and calf hides; shelled corn does not bring the price that it costs for the labor to shell it and to bring it to town.

These facts ought to be known in every industrial center of the country. They show the folly of trying to maintain the prices of manufactured goods and of wages at present levels.

Reports from state and national labor bureaus indicate that the loss of wages to wage-workers up to this time has been much greater by unemployment than by wage-rate reductions, and this is so because it is the general policy of the labor organizations to stand for the maintenance of wage-rates. Labor leaders are not to be criticized for favoring what they believe is for the interests of those whom they represent, but it is unfortunate that leaders who wield so great an influence should follow a mistaken policy. The preference of partial unemployment to a reduction of wage-rates is altogether wrong under existing conditions. It sacrifices wages without reducing industrial costs or lowering the cost of living. It prolongs the depression. It refuses to recognize the necessity for a general readjustment of wages and prices throughout industry, and that such readjustment is simple justice between the farm and the town industries.

In some quarters the claim is made that since the wage-earners are employed only part

time they are already suffering as much of a curtailment of wages as they should be asked to accept.

Another common plea is that retail prices have not come down to correspond with wholesale prices or producer's prices. That is true in many instances, and where is the responsibility? Retailers have said that their overhead expenses are still high. Overhead expenses consist of rent, freight charges, coal, lights, labor, supplies, taxes, etc., and are an important factor in costs. Rent is kept up by the high building costs, which for the most part mean wages, freight charges are up because of wages, and coal, lights and general supplies for the most part are traceable to the same basic cause. There are other factors, and they should be called to bear their full responsibility. Finally, it is not a final answer for anyone to say that his costs are high; it is up to everybody to get his costs down, and do his part in getting conditions back to normal.

None of these excuses meet the emergency which exists. They only palter with the situation. The fundamental fact is that in order to get back to prosperity the balance must be restored between, on the one hand, the producers of raw materials and foodstuffs, and on the other hand, the producers of finished goods and those who provide transportation and other services in distribution.

Professor G. F. Warren, of the New York State Agricultural College, is authority for a statement endorsed by the Department of Agriculture, Washington, that "the product of an acre of cotton, sold this year, will bring 61 per cent of the quantity of general commodities that the product of an acre of cotton would have brought as a five-year average before the war," and that "in only one year of the last 43 would the product of an acre of cotton have bought so little."

In spite of an exceptional large yield of corn per acre last year, the product of an acre of that crop, if sold this year "could be exchanged for only 73 per cent of the average quantity of other commodities that an acre of corn would have bought as a five-year average before the war."

The yield of oats was also exceptionally large last year, but the product of an average acre would buy 74 per cent of the usual quantity of other things, and if the price of oats alone be considered, a bushel of oats will buy 63 per cent of the usual quantity of other things, which is the lowest in 55 years.

Wheat makes a better showing than any other farm product, and the product of an average acre of wheat will buy 81 per cent as much as the average acre over the five years before the war. This is the lowest in 20 years.

These are the conditions that must be faced, taking account of the fact that approximately one half the population of this country lives on the farms or in rural communities immediately dependent upon the farms, and, furthermore, that all the raw material industries are in the same state of depression as agriculture. The buying power simply does not exist in the country to give employment to the wage-earning population at the present wage-level.

## The Price of Capital.

We have received a letter in which the writer says:

> In your April Bulletin you make the following statement:
>
> > Everybody who is insisting upon the old wages or prices for himself, while accepting cheaper services from others, is delaying the revival of prosperity.
>
> Now, the thing I want to ask is, why the banks, who are now about the only body of business men who are not taking their medicine, don't practice what they preach and come across and be good citizens with the rest of us who are taking huge losses, and reduce the interest rates?

The interest rate for money is not on the same basis as the prices for goods or wages for labor. The criticism aimed at the old prices, where still maintained, is that they are above the natural level and held there arbitrarily. The goods are replaceable at a lower level of costs. Raw materials have declined, and to some extent wages have been reduced; finished goods should come into line and the failure to bring them into line delays the readjustment upon a common level of values which must be accomplished before a general state of prosperity can be restored.

### Industry in Deadlock

The criticism of existing wage scales is similar, and stated elsewhere. The economic wage is one at which the people can be employed. It is not helpful to wage-workers as a class to maintain costs in any industry above the level at which the products can be sold. We have a state of deadlock, because people do not generally appreciate the reciprocal nature of trade. One end of the industrial organization is up and the other end down, with the result that they do not work together; both ends are interested in getting upon a common level, so that the exchanges can be resumed, with full employment for everybody.

The foregoing are economic considerations, not primarily ethical ones. The ethical basis is there, for no principle is economically sound unless it is also ethically sound, but primarily the argument is not that prices and wages "ought" to be reduced for ethical reasons, but that they must be reduced until the normal equilibrium in industry is restored, as a condition precedent to the revival of prosperity, and for the best interests alike of business men as a body and wage-earners as a body.

#### The Scarcity of Capital

Now why are not interest rates affected in the same way as commodity prices and wages?

They are subject to the same law of supply and demand, but there still exists a great scarcity of capital. The banks have lost heavily of deposits, as a result of the fall in prices, and this loss has affected their lending power and tightened the situation. The scarcity of capital at their command is something beyond the power of the banks to make good. It is a persistent fallacy that the banks can create capital or make it cheap. They can manufacture credit, but in only a limited sense can credit take the place of capital. It is the strained relation between capital and credit that makes interest rates high.

During the war the whole world violated economic principles, centering all thought and effort upon winning the war. Credit was created without stint, and interest rates kept artificially low. Instead of restricting private consumption in order to release productive capacity to the government and to supply the government with real capital, we undertook to provide the government with purchasing power through the private use of bank credit, on a great scale. We borrowed as individuals and turned the proceeds over to the government. Probably no other course was practicable, but this inflation of credit resulted in the great rise of wages and prices. We got away from all standards of value. Finally, when an effort was made by the bankers to stop the tide of inflation, interest rates inevitably went up, and have remained up, although now softening a little, as progress is made in restoring normal relations between capital and credit.

#### The Reserve Banks

The condition of the reserve banks is still abnormal. These banks never were intended to coin credit and put it into permanent circulation as they have done. Their function is indicated by their name. They were to be reserve institutions, which would be able to stand behind the member banks, support them and thus safeguard the entire situation and avert any repetition of the suspension of cash payments which occurred all over this country in 1907. But instead of using them for this purpose they have been used to manufacture purchasing power and put it into permanent circulation.

What they have done is no different in principle or effect from what was done during our Civil War, when the Government paid its expenses largely by printing the greenbacks. The greenbacks depreciated in value and were finally brought to par with gold in 1879. This time our paper money was kept at par with gold, but the purchasing power of our whole body of money, gold included, depreciated almost as much as the greenbacks did in their day. Federal Reserve credit was regarded as good as gold, but the profusion with which it was issued had the effect of depreciating gold, as any substitute which is "just as good" will depreciate the value of the thing it imitates.

The banking system came out of the war in an abnormal condition. It cannot be safely accepted as a permanent position. The member banks should pay their debts to the reserve banks and restore the latter to the position and function for which they were designed. This cannot be done suddenly, and should not be attempted suddenly, but the banks are loaded with loans which do not represent commercial assets, and to a great extent represent no existing assets. The loans against government war loans do not represent existing assets; they are a pledge of government revenues, to be collected in the future. The loans which represent speculative investments made in boom times of course are much less suitable for bank assets.

Every bank that is borrowing of a Federal reserve bank is under obligations to reduce its borrowings and get itself out of that position as soon as it can do so without inflicting undue hardship upon its customers. By undue hardship is meant forced liquidation. The latter is to be avoided, but an over-extended banking situation is not to be remedied by making money easy.

#### Investment Rates for Capital

The privilege afforded a member bank to re-discount at a reserve bank gives a desirable elasticity to the system, but no member bank should borrow continuously and permanently of a reserve bank. To do so takes the elasticity out of the system. The rate of interest in the investment market shows the shortage of capital there, issues yielding 7 and 8 per cent being common. This situation cannot be cured by printing money or manufacturing credit, and interest in the commercial field is governed by the same conditions. It is impossible to make the bank rate low in the face of such rates in the investment field; under such conditions funds ordinarily at the command of the banks would be steadily transferred to the investment field until the equilibrium was restored.

To sum up, interest rates cannot be regulated arbitrarily; they must correspond to the relation between the supply of available capital and the demand for it. That has been affected by the war, and is still affected by taxation, high cost of living, unremunerative returns upon great sums of capital invested in railroads and public utilities, credits granted

to Europe, and finally the industrial disorganization which is rendering business enterprises unprofitable and tieing up large amounts of capital in frozen assets. Interest rates will come down as new capital is accumulated, and that will be promoted by a general understanding of the fact that the entire community is served by such accumulations, no matter who owns them. There is no remedy for a scarcity of capital, but more capital.

### The Money Question

Nine-tenths of the erroneous thinking about money is due to confusing money as a medium of exchange with capital. Money is a convenience in effecting the exchanges but it does not take the place of capital. The money question always has been a subject of controversy, and it is not easily elucidated in all its details, but there are certain broad propositions which most people are able to grasp, and which when agreed to will dispose of many of the most plausible fallacies. It is a safe rule in the business world not to try to get something for nothing, and in the world of applied science not to try to get more out of any combination than the sum of all that is put into it. By the same reasoning it is safe to conclude that a people cannot make themselves rich by printing money or by any other scheme for making credit take the place of capital. There is a hole in every such proposition somewhere.

### Depletion of Capital by War

It does not stand to reason that the unproductive expenditures which the United States made on the war could be the basis of a higher permanent level of prosperity than it had ever known before. Real prosperity comes by an increase of the supply of wealth which one way or another contributes to the well-being of the population, and the expenditures upon the war do not come under this description. And yet a great many people who considered that they were very prosperous during the war and in the two years following, are convinced that that state of prosperity might have continued indefinitely if the bankers had not arbitrarily restricted the manufacture of credit. They do not see that a settlement day need ever have come, or that a reaction was inevitable.

Taking the country as a whole the war-time prosperity was a delusion. Those who actually improved their position did so at the expense of others. Normal relations were violently disturbed, with the result that some were gainers while others were losers, and many were temporarily deceived into thinking themselves gainers when in fact they were not. A good many people were consuming principal when they thought they were living on income, and many were happy and wasteful under conditions which could not possibly be lasting. The people who gained unearned profits by the sudden rise of prices should have known that such a disturbance of normal conditions involved the probability of a reverse movement, and all those whose incomes increased faster than their accustomed expenditures should have known that this was a temporary gratuity at the expense of the letter-carriers, school-teachers and millions of other people whose expenditures increased more than their incomes.

The economic law eventually levels out all such inequalities and restores the normal balance. The people who at first had the best of the disturbance are the chief complainants now.

### The Gold Standard

The world came to the gold standard by a process of evolution and elimination, the countries one by one adopting it in order to facilitate commerce with each other and to secure the greatest possible stability of values. The United States finally sealed its adherence to the gold standard by the act of Congress approved March 14, 1900, which declares that "the dollar consisting of 25.8 grains of gold nine-tenths fine, shall be the standard unit of value of the United States, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity."

There has been no modification of this declaration. The pledge stands. The Liberty bonds are payable in dollars as described in that quotation.

Nominally the United States is on a gold basis, for its money of all forms is maintained at a parity with the gold dollar, but it is not true that 25.8 grains of gold, nine-tenths fine, is the standard unit to which prices and property values are now related. The fact is that at the level of wages and prices now prevailing gold cannot be produced at the rate of 25.8 grains, nine-tenths fine, to the dollar. Gold production is unprofitable and rapidly declining. The gold standard cannot be permanently maintained without gold production, and in the long run wages and prices must return to the established standard or the standard will have to be changed by reducing the number of grains in the dollar, which would be a deliberate and unjustifiable act of repudiation.

It is the evident duty of the banking authorities of the country to be guided by the law of the land, and to follow a policy which in the long run will keep the country on a gold basis, with the word "dollar" wher-

ever used having the significance of 25.8 grains of gold, nine-tenths fine. That does not signify a drastic policy, but it means a consistent policy which eventually will give that result, and the business men who talk about stabilizing values at some theoretical level which has no relation to the gold standard probably have not considered the fundamental facts of the situation. The level of prices is not an abstraction; if prices are to have any stability they must be related to some standard of value. The great bulk of the primary products of the country are now selling practically upon the gold standard level. That is the level to which general prices will naturally tend as industry gets back into a normal state of productivity over the world. There would have been less jar and interruption of industry, and losses would have been less severe, if the descent to the gold standard level could have been accomplished more gradually, but since the great body of our products are there, the logical policy for leaders in all branches of industry is to bring prices and costs into harmony with the prices of foodstuffs and raw materials.

## The Bond Market.

The past thirty days have shown the wonderful absorptive power of the bond market. With the opening of the month allotments were made on the $230,000,000 Northern Pacific-Great Northern Joint 6½ per cent loan which was reported over-subscribed. Following this was a successful sale of $25,000,000 Republic of Brazil 8 per cent Bonds at 97½ and interest; $10,000,000 Libby, McNeill & Libby First Mortgage 7 per cent Bonds at 95¾ and interest; $20,000,000 Standard Oil of New York 6½ per cent Debentures at 100 and interest; $35,000,000 E. I. dupont de Nemours 7½ per cent Bonds at 100 and interest; $10,000,000 Kelly-Springfield Tire Company 8 per cent Notes at 99½ and interest.

The month closed with another large flotation of foreign bonds—namely, $100,000,000 Republic of France 7½ per cent Bonds at 95 and interest, to yield 8 per cent.

These large flotations have resulted in lower prices for some of the newer issues which have been offered since the first of the year, but as a whole the bond market has displayed remarkably strength, and the widespread distribution of these new offerings is indicative of the tremendous absorptive power which has developed from one end of the country to the other. In this connection it is interesting to note that some of the major syndicate lists today include upwards of one thousand active bond houses. Prior to the war these same lists included on the average from two to three hundred firms as real distributors. These figures, however, do not include stock exchange houses and brokers, but refer to investment houses with sales organizations devoting their chief efforts to the distribution of investment bonds. Were it not for the intensive development on the part of these investment firms, and some of the older investment houses and institutions which have developed nationwide selling organizations, the tremendous amount of new financing since January first would not have been accomplished with such satisfactory results to everyone concerned. It is possible for the small investor in any part of the country to obtain today practically the same investment service which is available in our large investment centers, and the distribution accomplished by these investment houses is developing an era unparalleled in the history of American finance.

## Discount Rates.

*Rates on paper discounted for member banks approved by the Federal Reserve Board and in effect May, 27, 1921.*

| Federal Reserve Banks | Paper maturing within 90 days | | | | Bankers' acceptances maturing within 3 months | Agricultural and live-stock paper maturing after 90 days, but within 6 months |
|---|---|---|---|---|---|---|
| | Secured by— | | Trade acceptances | Commercial Paper n.e.s. | | |
| | Treasury certificates of indebtedness | Liberty bonds and Victory notes | | | | |
| Boston | 6 | 6 | 6 | 6 | .. | 6 |
| New York | 6 | 6 | 6½ | 6½ | 6 | 6½ |
| Philadelphia | *6 | 5½ | 6 | 6 | 6 | 6 |
| Cleveland | 6 | 6 | 6 | 6 | 6 | 6 |
| Richmond | 6 | 6 | 6 | 6 | 6 | 6 |
| Atlanta | 6 | 6 | 6 | 6 | 6 | 6 |
| Chicago | 6 | 6 | 6½ | 6½ | 6 | 6½ |
| St. Louis | 6 | 6 | 6 | 6 | 5½ | 6 |
| Minneapolis | 6 | 6 | 6½ | 6½ | 6 | 6½ |
| Kansas City | *6 | 6 | 6 | 6 | 5½ | 6 |
| Dallas | 6 | 6 | 6½ | 6½ | 6½ | 6½ |
| San Francisco | 6 | 6 | 6 | 6 | 6 | 6 |

*Discount rate corresponds to interest rate borne by certificates pledged as collateral.

NOTE.—Rates shown for St. Louis and Kansas City are normal rates, applying to discounts not in excess of a basic line fixed for each member bank by the Federal Reserve Bank. In the case of St. Louis average borrowings in excess of the basic line are subject to an additional charge of 1 per cent., while in the case of Kansas City the rates on discounts in excess of the basic line are subject to a ½ per cent progressive increase for each 25 per cent by which the amount of accommodation extended exceeds the basic line, with a maximum rate of 12 per cent.

1812

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, July, 1921

## General Business Conditions.

THE general trend of business and industry during the month of June has been quiet and repressed. Some further hopeful signs have appeared, side by side with others which give less encouragement.

The plain truth of the thing is that the recovery of business, for which everybody has been hoping and waiting since the depression began late last year, has not yet materialized. No one's interests will be furthered by an ostrich-like attitude which buries its head in undue optimism, and makes glowing predictions for the immediate future, predicated wholly on a magnifying of the favorable symptoms. It is easy enough, and pleasant enough, to lull anxiety by such a process of reasoning, but what is wanted now is a general realization of the obstacles that must be met and overcome, more than a light-hearted prevalence of optimism founded only on half truths.

### Undue Pessimism Harmful.

On the other hand, an attitude of unwarranted pessimism can be just as harmful, if not even more so. We know that our banking system is intrinsically sound, and that it has already proved its capability to withstand the shock of a period of extraordinary strain, and to emerge unscathed from the most difficult test imposed in many years. We know that our ability, as a nation, to produce the raw materials which our people need, and which the world must buy from us, has been in no wise dwarfed. We know, finally, that our industrial and business organization is geared for production not only ample for our own needs, but on sufficiently large proportions to make export on a considerable scale a vital necessity.

These are fundamental facts, so plain that they cannot be misinterpreted. It is hard to understand how, knowing the foundation upon which our business life rests to be as rigidly secure as it is, there can be any doubt as to the final recovery. It is progressing no more laggardly now than in 1903 and 1904, when we were passing through a somewhat similar period, or in 1907 and 1908.

Recovery is certain to be slow. Where the artificially stimulated optimist makes his mistake is that, seizing upon a few favorable but quite natural events, he seeks to make them the basis of predictions that the final turn in the road has come, and that next week, or next month, the difficulties into which business and industry have fallen will have lightly drifted away.

### Adjustment Question Paramount.

It is primarily a question of adjustment between the various component parts in our economic structure. As has been pointed out in these pages before, a great portion of the population—particularly that portion concerned with the production of agricultural commodities—has had its purchasing power halved by the drop in commodity prices. Finished products have shown no such decline. The result has been that that portion of the population which has had its purchasing power cut in two is buying only half as much of those products which have not declined materially in price. Industrial stagnation and unemployment has been the inevitable consequence.

Although the process of bringing the price of farm products and manufactured articles into equilibrium must be slow and even painful, the fact does not mean that everyone can sit down, fold their hands, and wait for some mysterious set of forces to make things normal again. The result will come most quickly through the combined efforts of everyone, and the sooner every man and woman in this country who either receives wages or pays wages realizes and operates on the basis that the unbalanced state of industry as regards compensation received by important bodies of people must be overcome, the sooner will the real, sound revival of business begin in earnest. It is important to *think* about the proposition, but it is utterly essential to *act* upon it.

### Iron and Steel.

An examination of any of the particular industries which, because of their basic relationship to the whole industrial structure are con-

sidered "key" industries, only shows all the more how this condition of unbalance is backing up its effects all along the line. The iron and steel industry, for example, is operating on a basis variously estimated at from 20 to 30 per cent of normal capacity—the lowest stage the industry as a whole has reached in any year during the present century. Production throughout the year would indicate a total of 13.5 million tons of finished rolled steel products for 1921, as contrasted with some 24.8 million for 1913, and 32.3 million for 1920.

There seems little reason for doubting the assertion that production is not only far below normal consumption, but is likewise considerably below current consumption. Stocks that have been accumulated are being eaten into, and there is doubtlessly a heavy demand that is being deferred until, in the current phrase, "business picks up again." A part of the deferred demand will have to exhibit itself positively in the near future regardless of the general condition of business; purchase on a scale comparable with the present low ratio of consumption cannot be indefinitely sustained.

Reduction in prices that have been accomplished thus far have evidently not stimulated the aggregate present demand. It is contended that the stagnation is not the result of price levels obtaining in the industry, but of business conditions generally.

#### Slump in Soft Coal Market.

Production of bituminous proceeds at the rate of about 8 million net tons a week, which represents from 70 to 80 per cent of what might be expected in a season of prosperity. The sluggishness of buying indicates that the usual reserves are not being stored up, despite the fact that prices receded slightly during June.

Anthracite production has maintained a steady record since the beginning of the coal year on April 1. There has been little loss of time at the mines through lack of orders, and there is virtually no domestic anthracite, save pea coal, going into storage in the mining region.

Steam sizes are an inescapable by-product of anthracite mining, and at present there is little market for them. As they are always sold below the cost of production they represent a loss which is accentuated when prices are cut in an effort to move them in a slow market. Owing to the industrial depression the demand for steam sizes is light, and such storage of anthracite as is reported applies almost entirely to these grades.

Complete figures for May show that total shipments of anthracite were 5,793,895 tons, compared with 5,967,465 tons in April. Steadiness in the anthracite market is reflected in the steady working of the mines and the consequent prosperity in the anthracite region. There have been no dull times in the hard coal towns, and at a meeting of commercial secretaries in Philadelphia the middle of June it was reported that the anthracite region was one of the most prosperous in the State.

Wage scales in the anthracite mines are at their highest level, and this factor is a controlling one in current coal prices, since labor constitutes about 70 per cent of the total cost of producing coal f. o. b. mine. Inasmuch as the wage scale was formulated by the United States Anthracite Commission, which directed that it be written into an agreement to run until March 31, 1922, there is small possibility of a reduction in that respect.

Buyers of both bituminous and anthracite obviously look for further price reductions later in the summer. One hears the date July 1, when wages of railroad workers are to be reduced, frequently mentioned in this connection. As a matter of fact, there is no tangible evidence whatsoever up to the present time to substantiate the belief that downward revision of railroad rates will follow on the heels of wage reductions.

#### Construction Affords Basis for Hope.

May operations in the building industry may be described as distinctly satisfactory, all influencing factors considered. The Commercial and Financial Chronicle, drawing its data from 178 cities, arrives at the following sums as representing the projected building expenditures during the first five months of each year cited:

| Year | Outside New York | In New York | Total |
|---|---|---|---|
| 1921 .......... | $447,197,639 | $140,177,863 | $587,375,502 |
| 1920 .......... | 582,884,294 | 150,167,654 | 733,051,948 |
| 1919 .......... | 275,000,000 | 61,219,744 | 336,219,744 |

It is pointed out that, although the 1921 total for the whole country is well below that for 1920, several cities report large gains over the previous year.

There is ample evidence that, both in the ranks of building workers and of those who handle building materials, reason in the matter of reward is beginning to appear, as it has become more and more obvious that with prices and wages both pushed to a point where economic consumption could no longer be expected, strangulation, rather than a golden harvest, resulted. The prices stayed at the high point they had reached, for a time, and the nominal wages remained. But construction work itself began to sag desperately. Now material prices in New York City are reported to be off 25 per cent or more, and workers in Chicago, Cleveland, San Francisco and St. Paul have agreed to a wage reduction, rather

than cling to the higher rate that brought no work. This means laying the foundation for hopeful developments in the whole industry.

#### Crop Prospects and Prices.

Harvesting of wheat is in full swing, and the prospects still indicate a crop considerably above last year, as well as above the normal for previous years. The government's June report gave a prospective total of 829 million bushels, as compared with 787 million bushels last year, and 728 million bushels the pre-war normal. Recent price declines in the face of large exports, would indicate the grain trade's faith that the crop will be in no sense disappointing.

It has been pointed out that the reason wheat prices hold relatively better than those of such other agricultural products as corn, oats and cotton lies in the fact that Russia is still unable to export wheat on anything like a large scale. Since the possibility of Russia entering the international market to any extent this year still seems vague, the prospects of continued large demands for American wheat abroad are altogether favorable. Secretary of Commerce Hoover estimates that the carry-over of wheat in this country for the current year will be no more than 75 million bushels, but that the corn carry-over will be 500 million bushels.

Corn appears to be making excellent progress, and would seem to be the best situated, from an agricultural standpoint, of all the grains. Exports for the fiscal year ending June 30 will have been approximately 50 million bushels, as against some 3.88 million bushels the previous year. Reports from the oats crops are less favorable than from any of the other staple grains.

Acreage in the South devoted to cotton this year probably has not been as greatly reduced as was predicted in some instances earlier in the year. Twenty-five per cent reduction, or a shade under that, now seems to be the fairest figure that can be set. The use of fertilizer, formerly considered essential to good results, has been greatly limited. The present outlook is for the smallest crop in twenty years, but in arriving at any conclusions about the cotton crop at this time of year, it must be borne in mind that the very many favorable and unfavorable factors entering into cotton growing subject any estimate to radical revision as the season progresses. Prices continue weak, and during June dropped in New York to the lowest level reached since the pre-war period.

#### Textiles.

The wool market during June was fairly active, sales having increased materially toward the latter part of the month. Prices remained unchanged for the most part; in some few instances slight further descents were recorded. Seasonal demand for light goods at retail has been accentuated somewhat by the hot weather. It is estimated by the U. S. Bureau of Markets that world production of wool is now on a 93 per cent pre-war basis, with consumption at about 70 per cent pre-war normal.

#### Price Trends

That prices have a psychological aspect, as well as physical, was never better illustrated than at the present moment. The high peak reached during the war, followed by the very drastic reductions in many commodities, has stimulated a state of mind which, expectant of still further reductions all along the line, occasions that degree of purchase described as "hand-to-mouth." Everybody defers as long as possible the purchase of everything possible. The result is felt in every field of business.

While it is clear that the prices of many products have now reached rock bottom, the situation we are at present experiencing only serves to emphasize more vigorously the necessity for establishing equilibrium, on a stable price basis, between finished products on one hand and raw products on the other.

The Bureau of Statistics of the Department of Labor, in its report for May, shows that commodity prices during that month declined 1.9 per cent, leaving the index number 44½ per cent below the bureau's peak price in May a year ago, but still 51 per cent above the 1913 average. Foodstuffs, with a decline of 53½ per cent from the peak showed the greatest drop, and fuel and lighting materials, with a downward movement of 17½ per cent, showed the firmest resistance to decline. The following table, compiled by the Federal Reserve Bank, discloses that the price trend in this country has been more rapidy downward than in any of the other principal nations. Wholesale prices are used as the basis for the computation, average prices for 1913 being taken as 100.

| | Peak, 1920 | April, 1921 | Per cent decline |
|---|---|---|---|
| United States | 264 | 143 | 46 |
| United Kingdom | 313 | 199 | 36 |
| France | 588 | 347 | 41 |
| Italy | 670 | 584 | 13 |
| Germany* | 1,714 | 1,429 | 17 |
| Sweden | 366 | 229 | 37 |
| Japan | 321 | 190 | 41 |
| Canada | 263 | 187 | 29 |
| Australia* | 236 | 171 | 28 |
| India* | 218 | †183 | 16 |

* Base period, middle of 1914. † March, 1921.

## Protecting the Nation's Live Stock.

Much needed aid to live stock growers will be available within the very near future, following the completion of arrangements by Eastern and Western bankers, acting jointly,

to provide credit facilities up to $50,000,000 for cattle financing.

The situation of the live stock grower has, as a result of the sudden decline in commodity values and the general unsettled state of business, been particularly distressing. His problem has been utterly different from that of any other producer. Whereas the factory operator could economize in his disbursements, reduce his output, even close his plant for a time, or make any of a number of other drastic readjustments to bring his business into step with current conditions, the live stock producer has been confronted with but two alternatives: either obtain funds immediately for the customary financing of his operations, or to slaughter his herds—his breeding animals along with the others.

With credit conditions tight, it was found necessary to resort to the second alternative in all too many cases. The result is not only surcharged with possible disaster to the live stock grower himself, but constitutes a real menace to the entire country. The live stock grower's breeding herds form the foundation of his whole business: of the entire beef supply of the country, in fact. Depletion of these herds, to anything like the extent that was becoming imminent, would have meant striking at the very source of an industry affecting, directly or indirectly, every consumer in the country.

The seriousness of the situation was first brought formally to the attention of the Administration at Washington which, in line with its announced policy of "more business in government and less government of business," asked the banks of the country to handle the matter. It was felt that commercial loans of the type involved could be much more quickly and successfully handled by the banks, which make such operations their daily business, than by governmental entry into another phase of business life.

#### Loan Pool of $25,000,000.

Representatives of the Eastern banks guaranteed to provide $25,000,000 for the cattle loan pool, providing the Western bankers would match this sum dollar for dollar. Affairs connected with the credit in the East are being handled by Mr. Eric P. Swenson, Chairman of the Board of The National City Bank of New York, who is also chairman of the committee representing the Eastern bankers, and by Mr. S. E. Ward, Vice-President of the National Bank of Commerce in New York. The Western Executive Committee, which has its headquarters in Chicago, is composed of Mr. M. A. Traylor, President, First Trust & Savings Bank, Chicago; Mr. J. R. Washburn, Vice-President, Continental and Commercial National Bank, Chicago; Mr. S. T. Kiddoo, President, Live Stock Exchange National Bank; Mr. M. L. McClure, Director, The Federal Reserve Bank, Kansas City; and Mr. John Fletcher, Vice-President, Fort Dearborn National Bank, Chicago.

Since the situation which brought the credit into existence is acute, every effort will be exerted to make funds under it available at the earliest possible date. Direct placing of the loans will be through well known cattle loan companies, intimate with local conditions, and through local banks. Notes received under the loan will have a maturity of 6 months, with the privilege of renewal, where necessary, up to a total of 30 months. First consideration will in all cases be given to the breeding herds.

The rate of interest will be as low as is consistent with current conditions in the money market. It may be definitely stated that no brokerage commissions in connection with placing the loans will be permitted. It is held by the bankers instrumental in providing the credit that the chief purpose of the loan is service—to provide greatly needed aid to those who are confronted with a very menacing problem. Any brokerage commission, therefore, would be entirely out of keeping with the spirit in which the money has been so promptly provided.

### Freight Rates and Business.

The abrupt declines that the prices of farm and other products have suffered have brought freight rates under sharp criticism. Senator Capper of Kansas recently stated that "these rates almost absorb the farmer's grain, also a large proportion of his livestock; they have absorbed the decrease in the price of lumber; they have helped in many ways to demoralize the business of the country and to prevent its recuperation."

Freely granting that the position of the agriculturist has been an unhappy one in the past few months, it seems to us that freight rates are not guilty, as charged. The causes of commercial depression are worldwide and are not to be found in domestic transportation charges. When business was good last Fall the largest tonnage in the history of the country was offered the railroads, despite the advanced rates which became effective August 26th. Today ocean tonnage rates are at the lowest levels in a great many years, but ocean traffic is suffering perhaps even greater stagnation than rail traffic. There are many commodities that would not move even if the roads offered to carry them free for the simple reason that no market exists for them.

The California Citrus League is appealing to the Interstate Commerce Commission for lower rates, in spite of the fact that 367,741 carloads of fruits and vegetables have been

shipped in 1921 as compared with 309,181 carloads in 1920. Higher rates are clearly not checking the movement of this class of product.

### Freight Rates and Commodity Costs.

The question as to whether freight rates are unduly burdensome has been carefully checked by Mr. Julius Kruttschnitt, chairman of the Southern Pacific, and his investigation proves that rates are an inconsiderable fraction of the toll taken by commission merchants and retailers on many commodities. For example, from figures furnished by one of the large growers of lettuce in California, it appears that a carload retails in New York markets at $4,320, and that the same carload was delivered in New York, all charges paid including cost of seed, labor, packing, freight and refrigeration, etc., for $1,158. Texas farmers in April received $5 a ton for spinach. The freight rate to Chicago was $30.36 a ton. The retail price at that time was $300 a ton, or $264.64 more than the railroad and the grower together received. Whether the farmer would be benefited in the slightest by a reduction of freight rates under these conditions is hardly debatable.

That the Chairman of the Interstate Commerce Commission believes that remedies for the business depression must be sought elsewhere is evidenced by his address before the Railway Business Association, wherein he stated: "In some quarters zealous efforts are made to have it appear that this situation is in large part, or in the main, due to high freight rates. Freight rates are high. I have yet to meet a well-informed man who does not feel that as a general thing they can be made no higher as a revenue measure. Careful inquiry into some distressing situations discloses that the utilization of products is prevented not by freight rates but by economic conditions, and, perhaps, manipulated markets." Again, when Senator Shortridge appealed to the Interstate Commerce Commission for lower rates for California shippers, Chairman Clark replied: "We are in no wise insensible to the difficulties which shippers generally are experiencing, but as I have said, the plight of the shippers can not well be much worse than that of the railroads. In many instances inquiry into a situation demonstrates that it is not high freight rates that is preventing the sale of goods at the prices that must be paid."

The statement was recently made that the rate on wheat from Kansas City to New York was 30 cents a bushel, and from Argentina to New York 10 cents a bushel. Mr. Willard, President of the Baltimore & Ohio Railroad, analyzed this situation and found that when the Argentine wheat reaches New York in the form of flour its transportation has cost 49 cents, as against 33 cents for Kansas flour. In 1902 the freight rate on a bushel of wheat from Chicago to New York was 14 per cent of the selling price on the Board of Trade. Today it is 15 per cent. The rate is relatively, therefore, scarcely more burdensome today than it was twenty years ago measured by the selling price.

In making the horizontal advances last year many inequalities were inevitable, but the railroads have shown a commendable spirit in adjusting these inequalities with dispatch.

This country has been built up by the means of the cheapest transportation in the world and so we believe that ultimately a general reduction in rates is essential; but that cannot come until railway operating costs have been substantially reduced. Until then no reduction is defensible. Railway rates are on a war level because railway costs are on a war level and business would be poorly served by a slashing of rates that would produce a series of railway bankruptcies. As we have pointed out on previous occasions, we cannot expect prosperous conditions until the cycle of deflation has been completed. In this cycle must be included railway wages and railway supplies. When operating expenses have been deflated railway rates can be deflated, but we cannot expect to go back to the pre-war level of rates, as those rates were unfairly low.

### What the Railroads Are Actually Earning.

Probably those people who are agitating lower freight rates are ignorant of the desperate time the railroads are having in trying to make both ends meet. Some may be shortsightedly indifferent to the financial welfare of the carriers, for no one can examine their current earnings' statements and honestly demand a reduction at this time. It has been a good many years since the railroads were in affluent circumstances. Today, almost without exception, strong and weak alike, they are living by the sufferance of their creditors and by the doles of the Interstate Commerce Commission and the Railroad Administration.

The Transportation Act, it will be recalled, required the Commission to establish a rate level that would give the roads a return of not less than 5½ per cent, and the Commission, using its discretion under the Act, decided that a return of 6 per cent was needed, the extra ½ per cent to be used for additions and betterments. Competent students of railway economics were agreed that this was the lowest return that would sustain transportation if private capital was to be attracted.

The government guaranty expired August 31, 1920. The figures of operation are available for the succeeding eight months. A 6 per cent return for that period amounts to $728,901,000; the actual net operating income of the carriers was only $277,942,000, or $450,-

958,000 less than the minimum they should have earned. Furthermore, almost 80 per cent of their net income was earned in the three months—September, October and November—since which time earnings have been very much less, as the accompanying table shows:

| | Amount actually earned | Deficiency under 6% |
|---|---|---|
| September, 1920 | $75,310,000 | $39,371,000 |
| October | 86,455,000 | 31,889,000 |
| November | 54,343,000 | 50,234,000 |
| December | 10,225,000 | 81,243,000 |
| January, 1921, deficit | 958,000 | 71,584,000 |
| February, deficit | 7,378,000 | 66,993,000 |
| March | 30,695,000 | 54,547,000 |
| April | 29,249,000 | 55,098,000 |

The average net earnings of the railroads for the eight months since the government guaranty expired have been $34,700,000 a month and it takes $37,200,000 a month merely to pay interest on the railroads' funded debt. These figures show the utter impracticability of any reductions in rates until operating expenses have been definitely reduced.

Only these meagre net earnings justify the forced curtailment of the necessary expenditures for maintenance of way and equipment which has occurred.

#### Duty of the Government.

When the carriers were returned to their owners their treasuries were dangerously depleted and the subsequent negligible net earnings have not tended to strengthen their cash position. In consequence, the companies found themselves unable to pay their bills promptly. It has been estimated that more than half a billion dollars is owed to supply companies for rails, ties, coal, etc. Many of these supply companies are seriously embarrassed and throw an added burden on the banks which must carry them. One railroad is understood to have bills payable of $65,000,000. The Government is said to owe this road over $100,000,000. This is a typical situation. A prompt and liberal settlement of the accounts between the Railroad Administration and the carriers would produce untold benefits. It would be the first step towards a business revival. The second step would follow when increased net earnings prompt the railroads to begin buying again. The amount of work that should be done to place the rolling stock and other property of the carriers in shape to handle a normal flow of traffic is stupendous. Far-sighted business men have recognized that if the railroads enter the markets as buyers in periods of depression, not only would they procure their supplies more cheaply but the period of depression would unquestionably be shortened.

The President has discretion, under the Transportation Act, to fund the capital expenditures made on the railroads during the period of Federal control. This funding and the payment of the balances still due for the guaranty period would release substantial amounts of cash to the railway companies which in turn should promptly liquidate their debts to the supply companies and banks. Thus it lies in the power of the Government to an unusual degree to assist materially in the recuperation of business.

The railroads' difficulties were the chief subject of discussion between the President and the leading western bankers at the White House conference on June 20. The deep personal interest which the President is manifesting in the critical railway problem will assuredly hasten its solution.

#### Causes of Diminished Earnings.

As is well known, there is a seasonal fluctuation in the movement of traffic in good as well as in poor years. Traffic is always at the ebb in February and gradually rises to a peak in October. The average falling off in the volume of freight traffic, measured by ton miles, between October and February for several years past has been 28 per cent. The decline from October, 1920, to February, 1921, however, has been much sharper—no less than 47 per cent. With the volume of traffic virtually cut in two, it is not surprising that approximately one in five of all the freight cars of the country were idle and that net earnings in February should have been written in red figures.

This shrinkage in traffic, however, has been only a secondary cause of the railway difficulties. The primary cause is the high cost of labor and materials, and these costs are almost wholly beyond the control of the railway manager. As Mr. Kruttschnitt points out in a very illuminating letter just sent to the stockholders of the Southern Pacific, 64 cents out of every dollar of operating expenses were paid to labor at prices fixed by the Government; 15 cents additional went for materials and supplies at prices fixed by the Government, and 3½ cents were paid for expenses incurred by the Government in the first two months of 1920 when the carriers were still under Federal control. Therefore a total of 82½ cents out of each dollar of expenses in 1920 was paid out at prices practically fixed by the Government itself. Other materials and supplies consumed last year costing 15 cents out of each dollar, were purchased by the roads at prices fixed by general market conditions. In other words, only 2½ cents out of each dollar of expenses was under the control of managerial ability.

Before the Adamson Law went into effect in 1916, the railway wage bill was $1,468,576,394, or 40.8 per cent of operating revenue. In 1920, the same bill was $3,742,486,936, or 61.1

per cent of gross. These figures largely explain the deplorable comparison set forth below:

| | 1920 | 1916 |
|---|---|---|
| Operating revenues ...... | $6,225,402,762 | $3,596,865,766 |
| Operating expenses, taxes, rents ............... | 6,163,138,341 | 2,556,781,249 |
| Net operating income | $62,264,421 | $1,040,084,517 |

In 1916, which was a normal year, 71 cents out of each dollar of revenue covered operating expenses, taxes and rents. In 1920, 99 cents was so consumed. The balance of approximately $62,000,000 left for security holders for interest and dividends was one-sixtieth of the amount paid to employees. Had not a great majority of the roads accepted the guaranty provisions of the Transportation Act, thus securing the Governmental rental until September 1st, it is obvious that few solvent roads would have existed at the end of the year.

#### Security Prices Suffer.

Because of impaired earning power, the Pennsylvania has been forced to cut its dividend to 4 per cent, the lowest rate paid in a generation. The Panhandle and the Omaha dividends have been passed, and the Chesapeake & Ohio and Hocking Valley dividends deferred. Security prices have not unnaturally been adversely affected. One must go back to 1890 to find Great Northern preferred selling as low as it did in June. Southern Pacific broke through 70, the first time since the panic of 1907, although the company enjoys an exceptionally strong position. Northern Pacific, which is paying its quarterly dividend out of surplus, sold at its lowest price in 21 years. The National City Company has just prepared a chart of the average price of ten high grade railroad bonds, which shows that current prices are the lowest in 40 years.

Gloomy as the situation is there are some encouraging developments. The Labor Board has authorized a 12 per cent reduction in wages effective July 1, which will result in savings estimated at $375,000,000 a year, and the wasteful national agreements are abrogated as of the same date. We must comment, however, on the injustice to the carriers in postponing the date of relief from intolerable financial burdens when the increases authorized last summer were made retroactive for two months. We also believe that the decision of the Labor Board should have gone further and cancelled last year's increase which added over $855,000,000 to the pay roll. Everyone wishes to see those who work in transportation service fairly remunerated, but there is no possible justification for many of the abuses that crept into wage schedules during Federal control which very often required payment for work never done. A notorious illustration is an agreement compelling five hours pay for any work after an eight hour schedule even if such work might take but five minutes. Such economic waste is indefensible at any time but is an impossible burden under prevailing conditions. Full crew laws are still in effect in many states and require the employment of unnecessary trainmen. State laws require that the Missouri, Kansas & Texas maintain general offices in three states, entailing a sheer waste of a quarter of a million dollars a year. The public should demand the speedy abolition of law-made jobs.

#### The Transportation Act.

We do not agree with those who claim that the Transportation Act is a failure. It has not yet had time to demonstrate its worth. Its fundamental theory is the recognition of the rights of investors. Due to the steady fall of freight rates after 1905 and the persistent rise of wages and prices, railway investors have suffered severely. Between 1912 and 1919 nearly $4,000,000,000 were added to the railway property values, and yet the return paid to investors in the form of interest and dividends increased only $8,700,000. The new capital yielded an additional income of two-tenths of 1 per cent. Recognizing the impossibility of continuing to attract private funds under such treatment, the framers of the Esch-Cummins Act wrote into the law that rates must cover not only the expenses of operation but a fair return on the aggregate value of railway property. Unfortunately, the Act divided authority. Less than twelve months practical experience demonstrates the futility of requiring one body sitting in Washington to build up and protect railway net revenues when another body sitting in Chicago, without responsibility for the financial results of its decisions, can nullify the best efforts of the first body. The Transportation Act needs amendment in this particular. The Interstate Commerce Commission, heavily burdened though it is, must have ultimate authority over what the railroads pay for services received as they have authority over receipts for services rendered.

## The Colombian Treaty.

Friends of Colombia have taken issue with some of the statements made in the May number of our Monthly Letter relative to the events leading up to revolution at Panama and the recognition of the independence of Panama by President Roosevelt. Their claim is that the Colombian Senate was within its rights under the constitution of Colombia in rejecting the Hay-Herron treaty, which President Morroquin had negotiated, that there was no collusion between Morroquin and the Senate, and therefore no violation of faith with the United States.

While admitting that Morroquin exercised the powers of the Colombian Congress in addition to the powers of President during a period of civil war lasting several years, they say that this was in accordance with the Colombian constitution, and that a Congress was duly and legally elected and convened after the termination of the civil war, and that the Senate then elected and convened rejected the treaty for reasons which it deemed sufficient.

We are quite willing to present this side of the case, and recognize that when a controversy turns largely upon a question of the motives which have actuated individuals in the performance of certain acts, the discussion is very likely to be inconclusive and unprofitable.

Our reference to the treaty was not made with any purpose to revive the controversy, or to insist upon the view taken by the United States authorities when the unfortunate disagreement occurred, but simply to record, from the standpoint of the United States, why the settlement had been made, and to commend it. We have held that the chapter could not be considered closed until a settlement satisfactory to Colombia had been made, because more important than the motives or mistakes of the personages composing either government at that time are the questions of fundamental justice and good relations between the two countries. All of the individuals originally identified with the controversy, and whose acts, performed in the exercise of their discretion, resulted in strained relations, have passed away, but the relations between the countries are perpetual and should be friendly and more intimate as time goes on.

## International Relations.

Our original reference to the treaty with Colombia and the settlement for which it provides was for the purpose of emphasizing the importance of giving due consideration to the views and feelings of other peoples in matters of common concern over which differences of opinion develop. If we are in favor of reducing expenditures upon armies and navies and believe that nations should be able to maintain friendly relations, we should try to avoid policies that are likely to cause irritation. The sure basis for world peace is good feeling and a disposition in every country to pursue a policy in international affairs that makes for friendly relations and the general welfare.

There is another situation in our international relations which gives greater concern to many of our people than did that between this country and Colombia, and that is the situation created by the proposal to reopen the question of tolls upon the Panama Canal.

The entire history of negotiations over the canal project from the time of Henry Clay to the ratification of the Hay-Pauncefote treaty shows that the United States always stood for the construction of a canal which would be open to the ships of all countries upon equal terms, no matter by whom the canal might be constructed. In the early years it seemed probable that the capital for such an undertaking would come from Europe. The capital for the construction of our early railways came largely from there, and it was natural to expect that the canal venture would enlist capital there, rather than in this country. The Government at Washington in those years showed much solicitude for the principle of equal treatment. It expressly sought the agreement with Great Britain to that effect, embodied in the Clayton-Bulwer treaty, negotiated in 1850.

### Clayton-Bulwer Treaty.

As showing the attitude of our Government the following extract from a letter, dated October 20, 1849, by the Hon. John M. Clayton, Secretary of State, to Mr. Lawrence, our Ambassador to Great Britain, in regard to an agreement relative to the Nicaraugua route, is quite conclusive. Mr. Clayton said:

> If, however, the British Government shall reject these overtures on our part, and shall refuse to cooperate with us in the generous and philanthropic scheme of rendering the inter-oceanic communication by way of the port and river of San Juan free to all nations upon the same terms, we shall deem ourselves justified in protecting our interests independently of her aid and despite her opposition or hostility.

Great Britain yielded to the arguments of the United States government, and the Clayton-Bulwer treaty was the result, in which it was agreed that neither country would ever attempt to secure exclusive control of the Canal or acquire "any rights or advantages in regard to commerce or navigation through the said canal which shall not be offered on the same terms to the citizens or subjects of the other."

### The Hay-Pauncefote Treaty.

More than fifty years passed before the movement which resulted in the actual construction of the canal was inaugurated. After the voyage of the "Oregon," which raced round Cape Horn and arrived off Santiago just in time to have a part in the battle with the Spanish fleet in 1898, the American people determined to have the canal. They proposed to construct it with public funds, and they wanted to have the control in the United States government. They wanted to operate it, regulate the tolls and defend it with fortifications if they chose to do so. The British government was approached with a view to securing modifications of the Clayton-Bulwer

treaty, and an agreement was reached in the Hay-Pauncefote treaty, giving us what we wanted in the way of control. The terms were extended to include any canal forming a passage between the Atlantic and Pacific oceans.

The Hay-Pauncefote treaty was signed at Washington, November 18, 1901. The provision as to equality of charges is adopted from the convention governing the Suez Canal, and reads as follows:

The canal shall be free and open to the vessels of commerce and of war of all nations observing these rules, on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions or charges of traffic, or otherwise. Such conditions and charges of traffic shall be just and equitable.

This language would seem to be as unequivocal as language could be, but there are people who argue that the covenant simply means that the United States will treat all other nations equally, having as owner of the canal a right to make any terms it pleases for American shipping.

#### Coastwise Trade.

That argument is so strained that it can hardly be considered seriously, but there is another plea more specious. It is in favor of the right of the United States to exempt coastwise shipping from tolls, on the ground that foreign ships are not admitted to the coastwise trade. It is argued that since there is no competition there can be no favoritism or inequality. That this is unsound reasoning will appear from one situation which might arise. In the case of two ships, both loaded with lumber, one of American registry, and sailing from Seattle, and the other of British registry and sailing from Vancouver, both bound for New York; one would pass through the canal free under the proposed act; the other would pay tolls. Would that be equal treatment for the ships of all nations?

Great Britain undoubtedly will protest against the proposed legislation as in violation of the treaty, and a great many Americans will feel that, to say the least, the policy is not as clear as they would wish it to be, if it is to be the occasion of a controversy between the countries.

#### Influence Upon Railroad Traffic.

Moreover, there is a very good reason which concerns ourselves alone for not remitting the tolls on commerce between the two coasts, and that is that it would still further disturb the railroad situation. The time has gone by for accepting every policy that may have the effect of reducing railroad rates as of unquestionable advantage to the public. The railroads must, somehow, have income sufficient to live on, and it is a serious problem to find it. The Panama Canal has been built at great expense to the public, and there is no sound reason why the traffic which uses it should not pay the cost of maintaining and operating it, and a fair return upon the capital invested, as traffic on the railroads must be required to do. A reduction of railroad earnings on transcontinental traffic will require a corresponding increase of earnings from other traffic, and the interior will have to pay the bill.

#### Shipping Act Provisions.

The Shipping Act affords an example of provisions calculated to disturb international relations. It gives authority for putting into force discriminating customs duties in favor of commodities imported in ships of American registry and discriminating railroad rates in favor of commodities carried in such ships. Every discrimination of this kind produces irritation and is likely to provoke retaliation in some way, producing more irritation. All such provisions are economically unsound, because they tend to involve the trade of the world in a mass of complications, making the exchange of products more difficult and more costly. They are suggestive of the jurisdictional disputes among labor unions, and together with much other legislation are actuated by the vicious theory that there is not enough work to go around, and that the supply must be carefully conserved.

Everything must come at last to the test of whether or not it facilitates business. It is not at all certain that it is desirable to force all our foreign trade into American ships. It should not be overlooked that the trade is more important than the ships, and that efforts to have everything to our advantage may overreach themselves and injure the trade.

#### British Bankers on Foreign Trade.

The leading bankers of London have all joined in a public statement in which they have laid down very cogently the arguments in favor of public economy and a minimum of governmental interference with trade. It is worth reading, for it lays down general principle which apply to one country as well as another. The full statement, with signatures, is appended herewith:

A hundred years ago, in a time of depression following a great war, the merchants of London presented to Parliament a memorable petition against the "anti-commercial principles" of the restrictive system then in force. Today, moved by the same anxieties, weighed down by far heavier taxation and face to face with proposals intended to renew the restrictive methods of the past we submit that it is essential to the revival of confidence that no legislative or administrative measures should be taken which would diminish the total output of British industry or check the free exchange of British goods.

The burden of taxation can only be lightened if the necessity for public economy is resolutely faced. The

present rate of national expenditure threatens to cripple the country's resources and to impair its credit abroad. In our judgment, it is more than the commercial community can bear, more than the capacity of the nation can afford, more than were proper economies effected, the nation need be asked to sustain.

The system of Government regulating trade by licenses, controls, and departmental orders has, admittedly, however well-intended, had in many cases unfortunate results. Political interference with the natural course of commerce without regard to economic laws invariably does mischief. British trade needs nothing so much for its recovery as freedom to deal with its own difficulties, to study and provide for its own interests and to work out its own salvation.

It is as true as it was a hundred years ago that foreign commerce conduces to the wealth and prosperity of a country by enabling it to import the commodities which other countries are best able to supply, and to export in payment those articles which from its own situation it is best adapted to produce; that freedom from restraint be calculated to give the utmost extension to foreign trade and the best direction to capital and industry and that the maxim of buying in the cheapest market and selling in the dearest, which regulates every merchant in his individual dealings, is the best rule for the trade of the whole nation.

The policy of trying to exclude the production of other countries, with the well-meant design of encouraging our own, cannot increase the volume of commerce or the total volume of employment here. But it may well compel the consumers who form the bulk of our population, to submit to privations in the quality or quantity of the goods they buy The importation of foreign goods does not diminish the activities of our people, because such goods can only be paid for by the produce of British capital and labor. The advocates of a restrictive system are too apt to lose sight of the elementary fact that nations, or, rather, individual members of nations, buy foreign goods because they need them, not to benefit others, but to benefit themselves, and pay for them by producing goods which the foreigner in his turn requires. We cannot limit imports into this country without limiting our export trade, and striking a grave blow at the world-wide commerce on which this island kingdom principally depends.

Trade is exchange. No nation which lives by trading with others can prosper unless other nations prosper, too. We hold today great stocks of goods. We are ready to manufacture more. There is a large and insistent demand for them abroad. But owing to the paralysis of Continental commerce—due in part to the restrictive barriers which the new States have set up between themselves—the would-be buyers of our goods have not the means to pay for what they want. We have to build up the market that we need by encouraging Continental nations to export to us. For it is only by exports that they can re-establish their credit and provide funds for the payment of their debts. In such a situation we believe that all expedients to control and hamper imports into this country, whether by licenses, tariffs, or any other means, can only retard improvement in the Continental exchanges and prevent the natural recovery of trade. Legislation of this nature, while it may increase the profits of a few selected industries, cannot fail to check our output as a whole and to increase the costs of production to a level which may make it increasingly difficult for British traders to compete successfully with others in the markets of the world.

With party or political considerations we, as bankers are not concerned. But in the interests of British industry and commerce, now menaced by anxieties which it would be a profound mistake to underrate, we desire to enter a respectful protest against every restrictive regulation of trade which tends to diminish the resources of the State.

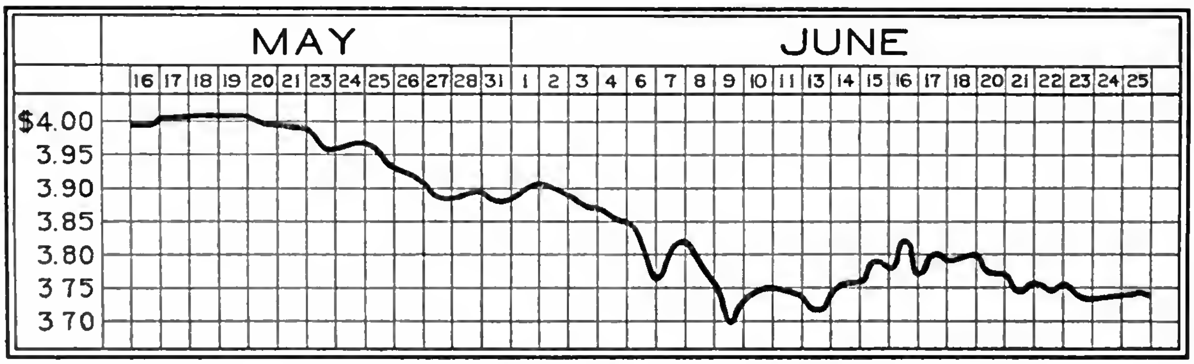
| | |
|---|---|
| C. S. Addis | R. M. Kindersley |
| Avebury | H. S. King |
| Henry Bell | Walter Leaf |
| R. H. Brand | James Leigh-Wood |
| E. C. Brown | F. C. Le Marchant |
| Chalmers | R. McKenna |
| L. E. Chalmers | Algernon H. Mills |
| L. Currie | Edward Paul |
| F. C. Goodenough | J. Beaumont Pease |
| H. C. Hambro | Felix Schuster |
| R. M. Holland-Martin | J. Hope Simpson |
| Inchcape | J. H. Tritton |
| F. Huth Jackson | R. V. Vassar-Smith |

## Foreign Trade and the Exchanges.

Foreign exchange rates fluctuated erratically during June. Sterling, starting on the first day of the month at $3.90, registered within nine days a drop of 20 points to $3.70. Almost immediate recovery began, but the $4 mark reached late in May was not again approached during June.

At the bottom of this page appears a graph which pictures the course followed by Sterling day by day since the middle of May. A single glance at the contortions of the curve will disclose vividly one fundamental reason why American trade with foreign countries is so unsteady. With monetary values jumping up and down like the needle of a compass literally in a single day, it is no wonder that anything approaching scientific pricing of goods entering into international commerce is most difficult.

The principal factor in the Sterling situation during June was the reported heavy buying of dollars in London for German reparations pay-




*Fluctuation of Sterling Rate During Past Six Weeks.*

ments. Slight effect, it is conceded, came through the interchange of commodities between the two countries, since such impetus (often a dominating factor) was neutralized by the decidedly quiet tone of business in both countries.

Neither French nor Scandinavian exchanges exhibited any particular features during the month. The lire developed a decided weakness, partially due, no doubt, to the fact that the Italian government has lifted its exchange restrictions, and partially to the fact that remittances from Italians in this country to the Motherland have dropped materially since the industrial depression began.

South American exchange during the month continued in the slump which it began to develop nearly a year ago, and consideration of the underlying causes for the depreciation involves one in a most baffling cycle of reasoning. One reason why South America is buying lightly from us because dollars are at such a relatively high premium (more than 3 to 1 in the case of Brazilian exchange) and we in turn are buying lightly from South America because we have, apparently, great stocks of the raw materials which the Southern continent exports. Both conditions affect exchange. That is to say, trade suffers because of the state of the exchanges, and the exchanges suffer because of the state of trade.

Proper balance and adjustment seems inevitable, because South America is in vital need of the finished products which this country is equipped to produce in surplus, just as we here vitally need—under normal conditions—the coffee, hides, rubber, wool, meats, metals, etc.. which South America produces in surplus. The things that South America has to offer in the world's markets are chiefly raw materials of prime necessity; therefore conditions there, although temporarily disturbed, must be fundamentally sound, inasmuch as the things that South America produces are in themselves fundamentally necessary to the world as a whole..

Foreign exchange rates for June are as follows:

| | Normal | Rate in cents May 27 | Rate in cents June 27 | Change from par | % of Depreciation |
|---|---|---|---|---|---|
| Canada ........ | 1.00 | .8950 | .8825 | .1175 | 11¾ |
| Germany ...... | .2382 | .0162 | .0135 | .2247 | 94¼ |
| Italy .............. | .1930 | .0535 | .0595 | .1335 | 69 |
| Belgium ....... | .1930 | .0842 | .0805 | .1125 | 58 |
| France ......... | .1930 | .0843 | .0807 | .1123 | 58 |
| England ...... | 4.8665 | 3 91 | 3.76 | 1.1065 | 22¾ |
| Switzerland.. | .1930 | .1772 | .1700 | .0230 | 12 |
| Holland ........ | .4020 | .3485 | .3315 | .0705 | 17½ |
| Denmark .... | .2680 | .1782 | .1705 | .0975 | 36½ |
| Norway ........ | .2680 | .1533 | .1450 | .1230 | 46 |
| Sweden ........ | .2680 | .2310 | .2245 | .0435 | 16¼ |
| Spain ............ | .1930 | .1315 | .1320 | .0610 | 31½ |
| Argentina .... | .9648 | .7600 | .6850 | .2798 | 29 |
| Japan ............ | .4985 | .4800 | .4800 | .0185 | 3⅞ |

The picture of this country's foreign trade as reflected in the last official report of the department of Commerce, is anything but gratifying. During the month of May, this year, the value of our exports was 55.9 per cent below that of May, 1920, and our imports 52.4 per cent below. During the eleven months ending May 31, we exported 17.4 per cent less than during the 11 months ending May 31, 1920, and imported 26 per cent less. Stated in dollars, these values were:

| | Exports | Imports |
|---|---|---|
| May, 1921 .......................... | $329,746,379 | $204,910,865 |
| May, 1920 .......................... | 745,523,223 | 431,004,944 |
| 11 Months ending May, 1921 .......................... | 6,179,350,357 | 3,468,787,158 |
| 11 Months ending May, 1920 .......................... | 7,479,611,906 | 4,685,746,580 |

The May figures mark a new low level for the year 1921 in both imports and exports; they reflect not only a further slackening in the demand for foreign goods here and for our goods abroad, but likewise the steady decline of commodity prices. England has the same story to tell, with her total exports off £89 million as compared with May, 1920, and her imports off £80 million. In other words the condition which brings about these results is a world condition, a slackening of demand and purchasing power everywhere. The evil of falling international trade will be cured, not when some one country—our own, for instance—begins to make satisfactory progress toward post-war recovery, but when all of the important countries of the world have begun to re-establish their economic life on the basis of former balance and stability. Even a perfunctory examination of foreign trade statistics from month to month gives in unmistakable language evidence of how intimately the prosperity of this country is found to be linked with the recovery of Europe and the rest of the world.

## The Money Market.

Money rates for both call and time loans softened materially during June. Numerous influences to bring about this condition were at work, including the Federal Reserve Bank of New York's reduction in its rates, the further liquidation of credit, the decline in security values, and the amassing here of income tax payments, along with the return through the usual mediums of the dividend and interest money disbursed by corporations on June 15.

Call loans exhibited an extraordinarily uneven tendency throughout the month. On June 1, for example, renewals were at 7 per cent and on June 3 at 7½ per cent. June 15—the day income taxes, interest, dividends, etc., were payable—the rate was 5½ per cent, and in the latter days of the month had dropped to 5 per cent flat, or a decline of 33 1/3 per cent

in interest rate within a single fortnight. Such a wide variation is of course altogether unusual. The 5 per cent rate has not been quoted in New York since October, 1919. Outside loans were being made, after the middle of the month, at from 4 to 4½ per cent.

Call money generally was abundant. Loans of New York brokers who, of course, absorb practically all of the call money offered in the market, have been greatly reduced in volume during the past two years. It is estimated by the Wall Street Journal that brokers' loans now stand at about $600 million, as compared with $1,750 million in July, 1919. The contraction therefore has been more than $1,100 million. In a normal "bull" market the daily turnover of call money is estimated at from $40 to $50 million, whereas the present daily turnover is running between $10 and $15 million.

Time money throughout the month was very slow, being available generally at from 6½ to 7 per cent. The demand, as was to be expected, was influenced by the temporary factors that had been injected into the money market as a whole, and by the sluggish trend of business.

General prevalence of easier credit conditions was reflected in thq action of the Federal Reserve Bank of New York which, on June 15, reduced its rates for all discounts and advances from 6½ to 6 per cent. This was the second reduction to be made by the bank this year. The various changes in its rates during the past 18 months have been as follows:

| | | | | |
|---|---|---|---|---|
| Nov. 3, 1919: | increased from | 4 | to 4¾ | per cent. |
| Jan. 22, 1920: | " " | 4¾ | to 6 | per cent. |
| May 29, 1920: | " " | 6 | to 7 | per cent. |
| May 5, 1921: | decreased from | 7 | to 6½ | per cent. |
| June 15, 1921: | " " | 6½ | to 6 | per cent. |

With the drop of the New York bank's rate, all of the Federal Reserve Banks, except two, are now operating on a 6 per cent basis, and these two banks which are maintaining a higher rate are located in cities which serve the financial interests of great agricultural communities. Here liquidation, due to the sharp descent in prices for agricultural products, has proceeded more slowly than in such manufacturing centers as Boston, Philadelphia and Cleveland.

Both the persistent and orderly liquidation of credit here, and the continued inflow of gold from foreign countries, have contributed considerably to strengthening the New York bank's reserve position. On June 22, the ratio of total reserves to deposits and Federal Reserve note liabilities stood at 68.9 per cent, as compared with 60.6 per cent one week previous, and 39.2 per cent on June 25, 1920. The reserve of the twelve banks combined rose during the same period to 60.4 per cent as compared with 56.8 a week previous and 43.6 on June 25, 1920. All of these facts point to easier money conditions, and to a wholesome improvement in the financial situation.

Previously the Bank of England had set the example for the New York Reserve Bank in reduction of rate. In this instance, however, the New York bank's announcement came fully a week before the Bank of England dropped its rate from 6½ per cent to 6 per cent. Due to the industrial disturbances in Great Britain, it had been doubted whether the Bank's rate there could be reduced for some time. Coming when it did, with the coal strike still not definitely concluded, the effect on British finance was decidedly stimulating.

Gold continues to flow into the country in unprecedented quantities. During the first five months of this year, the United States received more than $303 million worth of the yellow metal. Our current stock is estimated at fully 40 per cent of the world's money gold stock of $7,797 million, and is today some $50 million above our previous holding record, which was established on May 1, four years ago. Such an abnormal gold fund is, in times like these, fraught with as much potential danger as it is with potential blessings. In the administration of this enormous fund, the United States will have to take care not to commit the mistakes that other nations have made in handling a great concentrated stock of gold.

## Land Ownership.

Professor J. Russell Smith, of Columbia University, is the author of a timely and valuable work upon "The World's Food Resources," covering the subject in a comprehensive manner. It contains a reference to the low wheat yield of Russia which is interesting, because the author attributes it to the system of land ownership. The fundamental fact about land ownership is that it gives a sense of absolute security in tenure which the occupier does not have under any system of community ownership. After all is said in behalf of the theory that private ownership of natural resources is inconsistent with public rights, the fact is that the public is interested in the system which produces the largest yield from the land. The public interest is in yield rather than in ownership, and this is true as to all productive property. Professor Smith says:

> Russia, with its low yield of ten bushels per acre, might easily average fifteen or eighteen bushels, with a slight increase of animal industry and a system of land ownership that would place a premium on good farming rather than on bad farming. The democracy in the life of the Russian village or mir, while it produced absolute equality of men with regard to the ownership of the land on which they lived, has also produced very poor crops, because no man owned a field. He owned a share in the village holdings. The shares were from year to year redistributed, so that there was no reason why a peasant should enrich his

patch and hand the results of his labor over to his neighbor the next year. To make matters worse, in the attempt to get equality of land, each of the four or five types of soil that the village happened to own would be divided into as many pieces as there were farmers in the village, so that a farmer might have a field only eight feet wide with a dead furrow and no grain at the edge where it joined his neighbor's tract, which might also be but five or ten feet wide. If out of their revolutions the Russians establish order and individual land ownership, their yield of wheat will probably increase—if demand exists.

The grain crop of Roumania last year fell far short of pre-war figures, and the reports from the International Bureau of Crop Reports at Rome forecast similar results for 1921. Prospects are said to be for about one-half the pre-war yield, with nothing for export, although Roumania formerly was an important exporting country. This falling off is attributed to the breaking up of the large estates into small holdings, which is a state policy.

The London Economist has quoted from a report by the Secretary of the Chamber of Commerce, Varna, Bulgaria, in which reference is made to the rich province of Dobrudja, transferred from Bulgaria to Roumania in the peace settlement. It is said that this province was "a land of large estates, cultivated by modern methods, with many cattle and sheep," and that "the new land act cuts up the country into peasant holdings to which agricultural machinery is less applicable." It intimates that the new proprietors will be a long time in paying for their purchases.

Similar reports come from Poland and Russia. There is a lack of farming equipment among the new proprietors, and the land holdings are too small to allow of investment in modern machinery by the new proprietors. Fertilizers and the most approved farming methods are not used as generally as under the large proprietors. The results seem to show that even though it may be desirable to have the land holdings more widely disstributed, it would have been better to have had the distribution take place in a gradual manner.

The lesson has a wide application. The unequal distribution of wealth so commonly the subject of comment occurs for the most part in the ownership of productive property, and the public's chief interest in that kind of property is that it shall yield the largest possible quantity of the commodities wanted for general consumption. The question of who owns and manages the productive equipment is secondary to the question, in whose hands will it produce the largest results? The Russians have been giving a demonstration upon that point as to all kinds of productive property.

#### Fertilizer From Coal.

Continuing his discussion of wheat production, Professor Smith shows that the Russians are not the only people who are failing to make the best possible use of their resources. He says that the people of the United States are losing enough fertilizing agents in their present consumption of coal to produce all the wheat consumed in this country. He says upon this point:

> There are few countries indeed where social and legal improvement may not make substantial increase in food production including wheat.
>
> The most important single element to increase the fertility of the soil and stimulate the growth of wheat is nitrogen, used by the plant in the form of nitrates of which we have in recent decades begun to import hundreds of thousands of tons from the natural beds of Chilean nitrate (nitrate of soda). Much more significant, however, is the manufacture of nitrates directly from the air, with the assistance of limestone and heat derived either from the electric arc or from coal. This product, commonly called cyanamide (containing nitrate of lime) is now being manufactured by the thousands of tons at Niagara Falls and in Norway, Sweden, and many places on the continent of Europe. Germany even boasted that she was free from any need of the Chilean nitrate from which the British blockades had barred her. The late Lord Rhondda, British food administrator, said in 1917, "England and the United States are laggards in the fixation of atmospheric nitrogen—The German farmer now produces much more food per acre than the British, though he has a poorer soil and climate."
>
> Ammonia is also obtained from sulphate of ammonia made in the by-product coke oven, which distils many pounds of precious plant food for every ton of coke that passes through it. People in the United States are today mining and wasting by burning with their coal enough ammonia to fertilize far more wheat than they eat.

The principal producers of iron and steel have made rapid progress in the last few years in the substitution of by-product coke ovens which save the valuable constituents that have been going to waste. The utilization of the constituents of coal and iron ore have gone so far that an eminent chemist has been quoted as saying that the time has come when pig iron, formerly the only product obtained by smelting iron ore by the use of coke, had itself become a by-product. The value of work of this kind must be taken into account in determining the interest of society in the ownership and management of industry.

### Legislative Groups.

It is a common criticism of political parties in countries where parliamentary government is well developed that the party principles are not well-defined, that each party is made up of many incongruous and inharmonious elements, that they are but imperfectly responsive to public opinion and that altogether as machinery of government far from satisfactory. Nobody gets the full results he desires, and therefore feels at liberty to denounce parties and politicians as very unreliable.

The truth about it of course is that every political party, like the social body itself, is composed of people of many shades of opinion, acting together because they have some dominant purpose in common which requires

that they subordinate matters of minor importance. Order and government are maintained by the continual composition of differences and compromise of opinions.

Mr. Austen Chamberlain, recently chosen leader of the Coalition forces in the House of Commons of Great Britain, speaking at a dinner given in honor of his selection for that post, is quoted as follows:

> The critics of party no doubt have much to allege against the party system, and some of it not without justice. Party leads to unreasonable and unpatriotic extremes of thought and action in the excitement of our political struggles. It leads sometimes to forgetfulness of the objects for which parties exist and which alone justify their existence—the greatness of the country and the welfare of its people. It leads often and most frequently to an exaggeration of our differences and to the minimizing of the great mass of agreement that in the past has been common to all parties. But I will say this to critics of party, don't judge parties only by defects; judge them also by merits. The alternative to party is groups, sections, interests and classes. I do not say none of these affects the course of action of party, but I do say that the broad allegiance to the party of your choice keeps those smaller, narrower, and baser motives in check, and that it will be a bad day for this country when we abandon the party system which our free Parliamentary institution has developed and slip into that system of little groups and sections which gives the largest play to petty interests and takes the least notice of the great issues of the day.

**Parliamentary Groups.**

As compared with the British Parliament and the Congress of the United States, the parliamentary bodies on the continent of Europe are divided into numerous groups, who use their voting power by driving the best bargains they can to promote the special interests they wish to serve. The result is an even greater state of uncertainty as to governmental policies than we are familiar with in this country.

In the new Chamber of Deputies of Italy, Premier Giolitti is dependent for a working majority upon the combined support of the following groups:

| | Votes |
|---|---|
| Republicans | 10 |
| Reformists | 20 |
| Agrarians | 25 |
| Radicals | 50 |
| Liberal Democrats | 100 |
| Renovators | 25 |
| Nationalists | 20 |
| Fascisti | 25 |
| | 275 |

These together have 275 seats in a Chamber of 508.

Of the Catholics there are two parties as the result of a recent split, and the Socialists and Communists bring the total of regular parties to twelve. In addition there are a number of nondescript independents, having no party affiliation, and lastly there are the Germans and Slavs, ten in all.

Each of these groups has a special object to which it is particularly devoted, and in organizing under that title the purpose is to drive the best possible bargain with the other groups. A similar situation exists in the German Reichstag. Every group whose votes are necessary to a majority is in position to hold a club over the Premier and block his policies unless he comes to terms.

The effect of this multiplicity of organizations is to deprive the individual member of that freedom of personal will and choice which in the long run gives the best results. Instead of voting upon measures in accordance with his judgment of their merits, he votes with his group, and the action of the group is likely to be determined by the trades it can make with other groups for the purpose of forwarding the particular theories to which it gives its first loyalty.

**Farmers' Benefit Group in U. S.**

It is reported that a group has been organized in the United States Senate for the purpose of forwarding measures believed to be in the interest of the farmers. The intention of the participants no doubt is to promote legislation that will be generally beneficial, but group organization usually results in the substitution of intrigue for straight-out voting in accordance with individual convictions. Such substitution is undesirable.

Organization for the promotion of common interests is agreed to be a good thing, but every measure and purpose should be justified from the standpoint of the general interest. The division of society into organizations for the purpose of fighting each other, or getting something at the expense of each other by the power of combined numbers, is not the kind or organization that will improve conditions. Society is being strangled by such organizations. The truth is that the interests which all groups and classes have in common are so much more important than the interests which are peculiar to themselves that they lose every time they lay emphasis upon the latter to the neglect of the former.

## The Bond Market.

Declining prices in the bond market have resulted in a dull period with few new offerings by the houses of original issue. The one bright spot in the bond market during the month of June has been the municipal offerings and while prices have eased off during the month, nevertheless there has been excellent distribution and a large number of bonds have been placed on an exceedingly attractive basis. One of the issues which has attracted widespread interest is $31,800,000 State of New York 5 per cent Gold Bonds, maturing from 1922 to 1971, which were of-

fered at prices to yield from 5¼ per cent for the short bonds to 4.70 per cent for the longer maturities.

#### Municipal Bonds.

In conjunction with this offering attention has been called to the fact that New York State Bonds can now be purchased at the lowest price in twenty years. The trend of the New York State market has been traced from 1900 and it is interesting to note that in this year State issues were selling on a 2.65 per cent basis. Prices continued to decline until the close of 1910 when the yield was 3.85 per cent. Municipal fluctuations were not very wide during the next few years but at the close of 1913 yields had reached 4.05 per cent.

After the opening of the securities market following the outbreak of the War in 1914 New York State Bonds continued to advance until they reached a yield of about 3.72 per cent in 1916 and since that time the general trend has been downward until the average price of the longer term issues is now about a 4.70 per cent basis. In connection with these fluctuations it is interesting to trace the trend of New York City Bonds. In 1900 New York City Bonds yielded 3 per cent and prices declined almost perpendicularly until 1907 when the yield reached 4.40 per cent. In 1908 there was an abrupt advance which brought the yield to 3.90 per cent. Prices were more or less regular for the next few years until 1913 when the yield was 4.50 per cent. After the opening of the markets following the War prices advanced again bringing the yield to 4 per cent in 1917, but during the year there was an almost perpendicular drop which placed New York City Bonds on a 4.85 per cent basis following the First and Second Liberty Loans. 1918 saw another decline to a 4.95 per cent basis with a subsequent advance toward the close of the year to a 4.35 per cent basis and since that time the fluctuations have been generally downward until today New York City Bonds are obtainable on a 5.35 per cent basis.

A study of the bonds of twenty large cities excluding New York City shows a yield of 3.25 per cent in 1900 with a continuous drop until 1907 when the average yield was 3.85 per cent. This advanced slightly in 1909 but again continued to decline until 1913 when the yield was 4.45 per cent. Just before the outbreak of the War in 1914 prices had declined to a 4.05 per cent basis and 1916 found the average yield 4.75 per cent with a perpendicular drop in the following year which brought the average yield to a 4.55 per cent basis. During the next two years an advance in prices followed and in 1920 a severe decline brought the average yield to 5.25 per cent. During the early months of the present year the yield had again advanced to a 5 per cent basis and today the average yield of bonds of twenty large cities exclusive of New York is 5.30 per cent.

#### New Municipal Issues.

The attractiveness of municipals at present prices has developed a broad market and in addition to the New York State issue, the State of Pennsylvania offered $15,000,000 5 per cent bonds due July, 1951, which are obtainable at 101 and interest. Some of the other large issues of the month included:

| | |
|---|---|
| $7,939,000 | Chicago 5s of short maturities, to yield 6%. |
| $3,500,000 | City of Detroit Bonds on a 5½% basis. |
| $3,486,000 | Pittsburgh 5% Bonds, to yield 5%. |
| $2,560,000 | Flint, Michigan, 6s of short maturity on a 6% basis. |
| $2,000,000 | State of North Carolina 6% one year Notes on a 6½% basis. |
| $2,000,000 | Richland County, S. C., Serial Bonds on a 6.25% basis. |
| $1,250,000 | Cincinnati 5s, due 1965, on a 5.40% basis. |

#### Corporate Issues.

Railroad bonds as a class have maintained a fairly firm market during the month and the Wall Street Journal has called attention to the fact that most of the offerings since June 1, 1920, are selling above their original prices. From January 1 to June 20, 1921. $362,473,000 railroad issues have been offered of which $322,950,000 have been bonds, the balance notes. Comparative prices of ten high grade railroad bonds since 1880 show an interesting trend. The average price of these bonds in 1880 was 82 or a yield of 5.54 per cent. There was an advance upward until 1902 when the average price was 118, a yield of 3.79 per cent. Prices have since continued downward with temporary advances in 1905, 1908 and 1916 and the average price on June 16, 1921, was 78 to yield about 5.88 per cent. The yield on standard railroad bonds is one of the barometers of the earning power of money and present prices are attracting conservative buyers.

Public utilities continue to attract attention. The Pacific Gas and Electric Company has just reported for the year 1920 gross operating revenue of $34,475,000 which shows an increase of $8,537,000 compared with 1919. The earnings of this corporation, which shares its premier position with the Commonwealth Edison Company of Chicago and the New York Edison Company, are indicative of public utility earnings as a class and investors are turning their attention to public utility securities which have been neglected during the past few years. The point has been reached in public utility operation where gross earnings are beginning to show the advantage of increased rates and operating expenses are declining to a sufficient extent to allow these corporations to carry over into their net earnings a large portion of their increase in gross.

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, August. 1921

## General Business Conditions.

THE observers of business are almost unanimous in their assurance that there is a "better feeling" about business. Just exactly what this recurring phrase means is difficult to state. It might be descriptive of any of a dozen psychological changes that could enter into the situation. If it means that people generally have begun to realize the causes that have thrown industry out of balance, and to appreciate the things that must be corrected before conditions come into equilibrium again, then we should say that the reported "better feeling" constituted an important advance toward normalcy. If, however, the "better feeling" means simply that people are merely smiling and waiting more patiently, rather than setting themselves seriously to the task of wage and price reductions and other readjustments that are necessary, then we fear that it signifies but little.

There is fresh evidence constantly that the readjustments are taking place. They are slow, but it takes time for a knowledge of conditions to reach all classes and divisions of the population, and for them to make up their minds to give the cooperation that is necessary to bring industry back into balance. Meanwhile, it will aid in the cultivation of patience to realize that conditions are by no means so bad as they might be, and that considering all the circumstances the volume of business is really surprisingly large. Department store sales so far this year have been in physical volume ahead of last year, although somewhat lower in values, owing to lower prices. The monthly letter of the Federal Reserve Bank of New York for August gives the following table showing a calculation in percentage figures of the production in this country of eleven important commodities in each month of this year up to June. To arrive at a fair estimate of normal production a statistical analysis has been made of all available figures for previous years, and allowance made for normal growth. The percentages are as follows:

(Normal Production Equals 100)

| | Jan. | Feb. | Mar. | April | May | June |
|---|---|---|---|---|---|---|
| Anthracite coal mined | 101.3 | 110.8 | 93.4 | 98.2 | 88.9 | 94.1 |
| Bituminous coal mined | 73.0 | 64.0 | 57.4 | 64.0 | 67.3 | 65.9 |
| Pig iron production.. | 70.0 | 59.1 | 44.4 | 33.2 | 33.7 | 30.8 |
| Steel ingot production | 58.3 | 48.8 | 40.0 | 30.9 | 31.0 | 26.5 |
| Tin deliveries ........ | 30.1 | 30.7 | 32.0 | 30.8 | 23.7 | 30.8 |
| Cement production ... | 77.8 | 70.3 | 88.2 | 87.7 | 82.8 | 83.6 |
| Cotton consumption.. | 51.8 | 66.7 | 66.1 | 63.6 | 67.1 | 72.5 |
| Wool consumption .. | 55.4 | 67.1 | 87.8 | 98.4 | 105.2 | 106.6 |
| Sugar meltings ...... | 53.6 | 77.9 | 120.0 | 93.9 | 80.3 | 79.2 |
| Wheat flour milled .. | 79.6 | 80.0 | 107.9 | 113.7 | 104.6 | 116.1 |
| Meat slaughtered .... | 88.2 | 92.2 | 91.9 | 101.1 | 96.9 | 102.0 |

The good showing of the cement industry is largely due to the amount of public highway construction under way, which is stimulated by a desire to give employment to labor.

These figures show a very uneven state of industry, but certainly they do not indicate anything like complete prostration. July is the mid-summer month and normally not one of great activity, but business prospects in the commodities of common trade are considered good for a maintenance of the present volume and perhaps some increase of demand in the Fall. It is now more than a year since dealers have bought goods freely for stocks and they must buy for current trade.

### Textiles Make Better Showing

The textile lines have made a good showing during the past month. Seasonal demands for light wearing apparel have been active; cotton goods for next Spring (although opening at about the present season's prices) have sold well, with the demand for ginghams unusually heavy. Woolen mills have been busy on goods for Fall delivery, and are now booking orders for the Spring trade, at practically the same prices.

Paterson reports 20 per cent more looms in operation upon silk goods than in January of this year. Retailers still appear to be buying in light quantities, and only for immediate needs.

### Iron and Steel Industry Still Stagnant

In contrast to the increased activities in textiles, other great industries are showing no marked advances. In iron and steel, further reductions in both prices and wages have been the feature of the month. According to the

"Iron Age," the average price of eight principal steel products in the last week of July was $50.39 per ton, against $85.03 at the high level of 1920 and $35.80 in August, 1913, a typical pre-war year. This is certainly a very substantial reduction, but the market is still unsettled and wages in the industry are yet far above the pre-war level. Further reductions in both wages and prices are expected, particularly if reciprocal reductions in railroad charges are made.

Sales have been buoyed up somewhat from the low ebb reached a few weeks ago, as was to be expected when stocks on hand had become depleted. But the railroads both at home and abroad, along with the construction industry, are still buying only what is absolutely necessary for current needs. Production throughout the whole iron and steel industry is scarcely above 20 per cent of capacity.

#### Contributions of Mines to Railroad Revenue

The mining industry is very much depressed, and a correspondent points out the relation of this to the railroads. Figures from the Bureau of Mines show the nation's mineral output in 1920 was valued at slightly above 4½ billion dollars, or in the neighborhood of half the total value of our agricultural crops for the same year. In 1920 also, raw mined products, contributed 58.2 per cent of the tonnage carried by the railroads in carload lots. Even excluding shipments of bituminous coal, which of course bulk considerably, the mining industry last year contributed:

Twice as much railroad tonnage as agriculture;
Two and one-half times as much railroad tonnage as non-mining miscellaneous commodities;
Three times as much railroad tonnage as forestry;
Twelve times as much railroad tonnage as animal industry.

In other words, mining furnishes more than one-half the freight revenue of the railroads. It is conservatively estimated today that the metal mining industry as a whole is operating at not more than 50 per cent of capacity. The inter-dependence of industry is illustrated by the fact that the railroads not only depend upon the mines for the bulk of their revenue, but the mines depend largely on the buying of the railroads for their own prosperity.

#### Wages in Copper Mines at Pre-War Level

In the copper industry four out of every five men normally employed are today out of work. Wages of those who are working are at their pre-war level—$4.00 per day for common labor in the Rocky Mountain region, as compared with $6 a day during the war.

On the other hand, wages for common labor at the anthracite mines are from $6.50 to $7.00 a day, representing an estimated labor charge per ton of $4.07, as compared with $1.80 in 1913. Mining thus affords a conspicuous example of what has been referred to in this Letter many times before: the unbalanced state of industry generally. The metal miner has been forced by economic conditions to take drastic wage cuts that have brought his pay down to pre-war basis; the coal miner, on the other hand, is working under a national agreement which runs to April, 1922, and has taken no reduction in the wage rate. The high wage rate, is of doubtful value to the bituminous miner, however, because the demand for coal has fallen to about 8,000,000 tons per month, or approximately 30 per cent from full production. As a result of high mining costs, high-priced coal is a factor in high railroad charges, while high priced coal and high railroad charges figure large in all industrial costs, and are among the chief factors in the industrial depression which throws coal-miners out of employment and in keeping up living costs.

Coal buying seems to be for current use only, consumers apparently holding off in expectation of lower prices. The Summer season is passing without the usual accumulations for Winter, and warnings are becoming urgent that a coal famine may result later, particularly if there should be a revival of industry. Prices are demoralized, but still high as compared with pre-war prices.

#### Building Sluggish

Revival of construction activity on anything like a gratifying scale has thus far failed to materialize. Operations for June were apparently slightly lower than May, taken the country over, but were larger than April. Figures for July had not yet been compiled, as this was written, but indications were that they would be more encouraging than either April, May or June.

Building materials still show firm resistance to price reductions, having remained, according to the U. S. Bureau of Labor's estimate, practically stationary throughout the Summer—at 202, as compared with 100 for 1913, and 341 for the peak price of May, 1920. Despite the fact that construction workers in some cities have accepted wage reductions, the price of labor throughout the industry is still entirely too high for the work actually done. One hundred thousand workers in New York are resisting a proposed $1 per day reduction in their pay, which is $9 a day for journeymen. At the same time, a committee of the American Engineering Council, appointed by Mr. Herbert Hoover, announces that $500,000,000 a year in wages are being lost through unemployment. One of the chief sources of waste in the industry, adds the report of the Committee, has been through union regulations,

which "in the past have produced enormous losses through direct or indirect restriction of output."

### The Crops

It is yet too early to give a final estimate of this year's grain crops, but the winter wheat crop is made and is a good one. The total yield promises to be above the pre-war normal, and for corn a crop that will approach, or even top, the biggest crop in the record of the country. In another month it will be possible to tell the story much more accurately.

The government's official report on crop conditions for July forecast 809 million bushels of wheat, 1,329 million bushels of oats, and 3,123 million bushels of corn. The wheat estimate was off 20 million bushels from that for June and the August estimate will doubtless show a further reduction. Threshing returns have been disappointing in some localities. Weather conditions throughout the month were in the main favorable, although there was widespread complaint from Spring wheat territory, on account of the hot, dry weather, and the damage done by rust.

Canada's crop is now estimated at around 300 million bushels, which is a little above the yield of last year.

Movement of wheat has been exceptionally heavy during July. From July 1 to 26, 11,743 cars arrived in Kansas City alone, as compared with 3,959 for the same period last year, and an average of about 5,000 for the same period each year since 1914. The same heavy movement is apparent at Chicago.

Reasons that lie behind the early marketing in such quantities are obvious. The farmer's experience last year in holding back his grain in the hope of a better price met with such discouraging results that there is little temptation to try the same experiment again this season. Moreover, his need for current funds is urgent. The fact that railroad cars are easier to obtain this year than they were last, furnishes another incentive to early marketing.

### No World Surplus of Wheat

The not infrequently expressed fear that 1921's wheat crop might be in excess of world needs, seem to be unfounded. Russia is still out of the market, as a seller, and is actually buying flour from outside, apparently India's position will be changed from that of exporter to importer; and Roumania will have no wheat to export, it is predicted. Although the grain crops over Europe are generally reported to be good, the carry-over was small. Bradstreet's calculates that the importing countries will buy about the same amount as last year. Much now depends on the growing crops in Argentina and Australia, where acreage is about the same as last year and prospects to date are reported favorable. India will probably take what Australia has to spare.

The market has stood up well under the heavy receipts from this crop, demonstrating the services of the speculator, for undoubtedly the deliveries have been far beyond the needs for immediate consumption.

Given favorable weather conditions through August, the corn crop should be the largest ever harvested in this country. The planted area is 109 million acres, or approximately 5.4 millions more than last year, when the record crop of 3,232 million bushels was produced.

Yields of oats and barley are light, both in quantity and in weight. The hay crop is apparently short, the fruit crop reduced in most sections, and the pack of canned goods considerably below last year's total.

### The Price of Corn

Prices ruling in the cereal market are not such as to increase the buying power of the farmer. Below are given the cash prices of number 2 yellow corn, in Chicago, upon July 22 or the nearest date thereto over a period of 10 years:

| | | | | | |
|---|---|---|---|---|---|
| 1912— 72½c | per | bushel | 1917—163¼c | per | bushel |
| 1913— 60¾c | " | " | 1918—152½c | " | " |
| 1914— 72c | " | " | 1919—195c | " | " |
| 1915— 80¾c | " | " | 1920—154c | " | " |
| 1916— 83¼c | " | " | 1921— 64⅝c | " | " |

The present price is, with one exception, the lowest in a decade, and slightly above one-third that of a year ago. The figures as to oats are even more unsatisfactory, as this year the farmer has a light crop selling at a low price. Moreover, quotations at Chicago and other central markets do not tell the whole story. Owing to the increased freight rates the farmer who sells in the country markets realizes a considerably smaller percentage of the Chicago price than before the new rates went into effect. Prices in primary markets are based upon prices in the central markets, less cost of delivery in the latter.

Among agricultural products wheat and hogs are above pre-war prices, and yielding fair returns, but on the whole the farmers' income is down to a level which renders it impossible for him to make improvements or buy the usual quantity of manufactured goods for consumption at the present level of prices for the latter.

### Cotton Crop Smallest In Many Years

Despite some damaging rains and unusual activity of the boll weevil, cotton has had a good growing month, and conditions generally have been such as to favorably revise the government's July estimate of 8,433,000 bales, which is some five million smaller than last year's crop, and almost eight million smaller than the record crop of 1914. Prices firmed

up somewhat during the early part of July, but lost in the later days of the month. Only a year ago (July 22, 1920), spot cotton sold in New York at 43.75 cents per pound. In June of this year, the price had dropped to the low mark of 10.85, or to less than 25 per cent of last summer's level.

There are ample indications that, along with the cotton acreage reduction of from 25 to 30 per cent, there will be greater diversification of crops in the South this year than ever before. It is fallacious to think of the land that is being withheld from cotton growing, as wasted land. One authority estimates that the corn and wheat acreage in the cotton states has been increased by 60 per cent this year. It is also said that the Southern farmers are raising more hogs and cattle than ever before.

#### The Fundamental Trouble

The fundamental difficulty upon which a revival of business waits is still the inequality of values as between the various classes of goods and services. The normal basis of trade between people in different industries has been disturbed, and it is only by the pressure of painful experience that the old relations are restored.

The position of the farmers who are producing cotton, corn and oats, is set forth briefly above. The producers of wool, hides, sugar, and foodstuffs generally are getting no more for their labor than before the war. Among the principal items of expense to them is clothing. They produce the raw material for it, but under the modern system of industry sell it and buy it back in the form of garments, paying the transportation charges, mill-workers, garment-workers and all middle men by supplying food and raw materials to everybody.

All of the people who have a part in the conversion of wool, cotton and hides for the farmer's use are still getting 100 per cent or better above pre-war wages, but naturally they are not all at work, for the evident reason that the farmer cannot buy as many clothes at the present prices as when his own compensation was on a par with the compensation of these people with whom he is trading services.

#### The Clothing Industry

A great strike has been on in the clothing industry of New York City for nearly a year, against a reduction of wages, which during the war and the year following were advanced 150 to 200 per cent. Nominally it is a contest between employes and employers, but the latter would be as willing to pay the old wages now as in 1919 if they could charge the same prices for clothing. The first strike was by the buyers of clothing, and it was a wholly unorganized movement with them. They simply quit buying because their own incomes had declined and they did not have the means to go on buying clothing at the old prices.

They have been getting along without clothing and one way or another the clothing workers of New York have been getting along without wages for nearly a year. The latter are said to have expended a million or two of strike funds which they had left after giving $250,000 to support the steel strike. They have now announced their intention of raising a new "defence fund" of $5,000,000, for the purpose of keeping up the price of clothing, or, as they put it, of placing themselves in "actual control" of the clothing industry. It may be added that this $5,000,000 is not to be invested in clothing manufacture, but simply in getting control without ownership. When they have accomplished this purpose the problem of selling clothing at war-prices to farmers who are producing wool and cotton at pre-war prices will remain to be solved.

#### A General Situation

A similar problem faces the wage-earners in all the industries. The wage-workers in agriculture have the situation before their eyes, and have yielded to it promptly. The wages of farm hands have dropped approximately one-half. Farm hands were close enough to the situation to see that it was that or nothing. The factory workers, railroad employes and town workers generally are many of them working for the farmers and will have to face the same situation. Unemployment exists on a large scale because goods cannot be sold, and they cannot be sold because the industrial situation is out of balance. Recovery will come as the balance is restored and cannot come otherwise.

It is greatly to the credit of the wage-earners as a class that the process of readjustment has proceeded with as little friction as has been the case thus far. Generally there has been willingness to make concessions. It is not advisable that the movement should be unduly pressed. It is better to take more time, although delay means that the losses are greater, for the wage-earners are entitled to know why lower wages are necessary. They are interested in having the necessary readjustments made in order that industry may be on a basis that will afford steady and full employment. Wage reductions will have to go much further in the manufacturing industries and in transportation before this situation is reached. It has been contended, and with much force, that living costs should lead rather than follow, wage reductions, and they have led at the expense of the earnings of farmers and at the expense of profits and dividends, but they have reached a point where further price reductions are dependent upon wage reductions. These reductions, however, will not mean a loss of purchasing power to wage-earners, for the very reason that wages are now the principle factor in

prices, and the cost of living, generally speaking, will decline accordingly.

On the other hand if further reductions are not made in the industries indicated, living costs are likely to rise. Already the farmers are organizing for the purpose of curtailing the production of agricultural products. The cotton crop this year will be 25 per cent below the average amount required under normal conditions to meet the demand. Plans are being developed to curtail the production of foodstuffs. These policies are justified by the combinations of wage-earners and others to maintain wages and the prices of town-made products at an unfair level above farm products. The whole system of restriction is wrong and in the end defeats the purpose in view of bettering living conditions for those who practice it. When everybody practices it the result is poorer living conditions for all. The best results will be obtained for every group of workers by a fair attitude toward others, and by a common policy to obtain full production.

#### A Universal Problem

The industrial situation is out of balance not only between the several branches of industry, but between countries, as the one-sided state of trade shows. The latter, however, is in the way of gradually righting itself. An officer of this Bank attended the meeting in London in June of the International Chamber of Commerce, where an opportunity was afforded of meeting bankers and business men from nearly all the countries of Europe. He came away with the conviction that the want of balance between industries is a more serious factor in the world depression than the want of balance between countries. Everywhere wages, manufactures, transportation charges and middlemen's charges generally are out of proportion to the value of primary products. The latter have fallen precipitately; wages come down slowly and wages are the sustaining factor in the cost of manufactured goods, transportation charges and middlemen's services.

England's export business is poor because the countries around the world to which she sells must pay for the most part in raw materials and these are so cheap that they cann t buy much. It is true that the devastated districts of France cannot produce in normal quantities, but the restored industrial capacity is very much in excess of present operations. In other words they could not at present use more shop capacity if they had it. There is a state of deadlock not only in trade between countries but in domestic trade, and the latter is generally the most important factor. It is a question whether our exports can be very much increased immediately even by offering credits. Manufacturers will not buy cotton unless they see a prospect of selling cotton goods, and that depends upon a general industrial revival, or in other words upon a general flow of trade. If we could make great loans at low rates for construction purposes, thus putting people to work, that would afford a stimulus, but that is impossible; and responsible statesmen over there would shrink from making great loans for purposes not directly productive, such as dwelling houses, at present building costs. Great Britain has abandoned its undertaking to build 500,000 houses, frightened out by the cost.

#### The Russian Market

The loss of the Russian market has seriously affected European industries, and that it even affects the United States unfavorably is a striking illustration of how a disturbance of industry in one country will disturb it in many. The prostration of Russia relieves the American wheat grower from competition, but has closed a great market for cotton goods and all manufactures. The industrial depression which results affects the sales of cotton all over Europe. If those countries are to buy wheat of us instead of Russia they will want to know who will take the manufactures with which they have been accustomed to pay Russia. It does not wholly meet the situation to offer them wheat or cotton on credit, for the ultimate consumer, the wage-earning population, cannot buy unless he has employment.

The loss of the Russian market has affected India seriously, because Russia consumed about 25 per cent of all the tea grown in the world. Tea has had a calamitous fall, and the ability of India to buy cotton goods affects the ability of Manchester to buy American cotton. It likewise has affected the price of silver, and the fall of silver has affected the ability of both India and China to import goods from the western world. And so the influence of the Russian debacle may be traced through many ramifications, all showing how the world is linked together by common interests, and teaching the lesson that the movements of trade are too complicated to be effectively regulated by the acts of legislative bodies.

What is said above is by no means intended to discourage plans for providing credits for Europe. We can sell much more with them than without them, but we must not allow ourselves to think of international payments either for goods or upon indebtedness in terms of money. Such payments must be made in goods or they never will be made at all. The equilibrium between countries and between industries must be eventually restored.

## Money and Credit.

The credit situation continues to work easier in the industrial districts of the country, as the liquidation of business proceeds. Inventories are being reduced and debts paid, with the result that bank loans are going down and

bank reserves are rising. This movement is enhanced by the steady receipts of gold from Europe. During the year ended June 30, 1921, the net importation of gold into the United States was $535,000,000, and the reserves of the Federal Reserve banks increased by $490,000,000. When it is considered that consumption in the arts took an amount in excess of the domestic production, it will be seen how effective the Federal reserve system has become as a means of gathering up the available gold supplies.

At one time last Spring the Federal reserve bank at Dallas was the only one of these banks rediscounting paper with the other reserve banks, but the statement for July 27 shows the Richmond, Atlanta, Minneapolis and Dallas banks borrowing from the Boston, New York and Cleveland banks to the aggregate amount of $61,400,000.

On the 21st of July the reserve banks of Boston, New York, Philadelphia and San Francisco, put into force a 5½ per cent discount rate for all classes of paper. The Bank of England and Bank of France have recently dropped their regular discount rates to the same figure.

These reductions have been due to an easier banking situation, and for the purpose of making less burdensome the task of carrying stocks, particularly of farm products, which at present cannot be sold.

Commercial paper is ruling at 6¼ to 6½, with exceptional paper as low as 6 per cent. Collateral time loans are about the same or slightly lower, and call money has been irregular, ranging from 6 per cent down to 3½, according to the daily supply. The demand has been light.

### Progress of Liquidation

The total earning assets of the Federal reserve banks on July 27 were $1,919,408,000, which compares with $3,162,315,000 in the corresponding week of last year, and $3,422,000,000 at the middle of October, 1920. The percentage of total reserves against combined note and deposit liabilities is 63.4 per cent, against 44.2 per cent one year ago. It should be noted in this connection that this increase in reserve percentage has been due more largely to increases in the reserves, resulting from gold importations than to reduction of liabilities. According to a calculation given in the July letter of the Federal Reserve Bank of New York, the average reserve percentage in June would have been 48 if figured on the reserves of a year ago, instead of 59 as figured on the actual reserves.

The liquidation which has occurred has not been forced, but has resulted from the slackening of trade and decline of prices. Less working capital is required to carry on business under these conditions, and deposits shrink as commodity values decline.

The decline in the volume of deposits and loans and also of interest rates may be properly called to the attention of the critics who have been charging the bankers with having restricted loans for the purpose of increasing their earnings. If that was their purpose their own policy defeated it. We have often set forth the fact, familiar to all practical bankers that the banking business makes the largest earnings when the community is generally prosperous. The critics evolve their theories to the contrary out of their heads, without any study of the actual conditions. Their fundamental mistake is in thinking of bankers as money-lenders only, losing sight of the fact that bankers make their profits off the deposits, and that the volume of these is closely related to the state of general industrial and business activity.

### The Federal Reserve System in Politics

It is unfortunate that any effort should be made to attach political significance to the management or policies of the Federal Reserve System. In the judgment of people best qualified to judge of banking policies, both in this country and abroad, the chief error committed in the management of the Federal Reserve system up to this time was in making credit too cheap while the government loans were being floated and in the year following the armistice. This policy was not governed by economic conditions, but by a desire to facilitate the floating of loans and keep the public in pleasant humor. The public was misled as to actual conditions and has suffered in consequence. Many people have viewed with concern that feature of the Federal Reserve system which provides that the members of the governing board at Washington shall be appointed by the President, and every attempt tc make capital for or against any political party from the policies of the system increases that concern. If the Federal Reserve system is to be involved in every Presidential election and the policies of the Reserve Board are to be directed with a view to carrying the next election, the usefulness of the system will be very greatly impaired. The recent reductions of discount rates by the Reserve banks have been made possible by a lessened strain on the system, and do not signify a reversal of policy.

### Foreign Credits

Bills are pending before the Congress for several measures intended to provide for the flotation of securities based upon credits which represent exportation of American products, particularly of the farm. They are strongly backed by the Senators and Representatives from the states where agriculture is the domi-

nant industry. Under ordinary conditions there would be no occasion for such legislation, and we would regard it an undesirable innovation, but present conditions in foreign trade are extraordinary. It is impossible for Europe to buy our products as it would like to do except upon credit, our home markets are congested with a surplus and all business is depressed in consequence.

There is difficulty in enlisting private capital in the sums needed, because European credit, in view of the existing state of politics and industry over there, does not make a strong appeal to private investors. There is undeniably more risk in dealings with Europe now than in normal times. Ordinarily the export business on our staple commodities is handled on a very small margin of profit, but the traders expect to get cash on delivery of the shipping documents. Traders cannot sell grain, cotton and meats on credits. There is a public interest in having these exports go on, but that argument is not effective in an appeal to individual investors. It is, however, a valid argument in favor of the use of government credit. The British Government has appropriated approximately $100,000,000 for a guaranty of export credits, upon the theory that the general interest warrants it in making this effort to get business moving. It does not guarantee foreign credits in full, but up to 85 per cent of actual sale values.

### War Finance Corporation

In the War Finance Corporation the United States Government has an organization which with some enlargement of its authority is as well calculated to handle such business as any that can be devised, and at slight additional expense. It therefore seems that any further activities should be through it. In seeking to enlarge its activities it is well to understand clearly why it has not done more business in the past. That has been because it was restricted in operations to advances upon credits guaranteed by banking corporations. No scheme that contemplates such endorsements by commercial banks will amount to anything. Banks that are dependent for their resources upon deposits payable on demand, or within a short time, cannot safely tie those deposits up in long term credits to Europe, even though they can obtain advances against them. The liability is still there, and the foreign credits when due may have to be renewed in whole or in part. Banking institutions organized under the Edge Act and obtaining capital from investors can comply with such terms, but few of them as yet have been organized, and it is doubtful if a very considerable amount of capital can be provided in that way.

If it is the will of the Congress to go farther and put it in the power of the War Finance Corporation to handle an important amount of exports, the Corporation must be authorized to assume the unavoidable risks. It should be authorized to receive foreign government bonds, or other security in its discretion. Although it is desirable to trade with private parties rather than with governments it may be desirable to have both private and government credit pledged in some instances. The total volume of business should be limited but within those limits much will have to be left to the judgment of the management, if anything is to be accomplished.

### Table of Exchange Rates

Following is a table of exchanges for the month of July:

| | Normal | Rate in cents July 27 | Rate in cents June 27 | Change from Par | % of Depreciation |
|---|---|---|---|---|---|
| Canada | 1.00 | .8900 | .8825 | .1100 | 11 |
| Germany | .2382 | .0126 | .0135 | .2256 | 95½ |
| Italy | .1930 | .0408 | .0595 | .1522 | 78¼ |
| Belgium | .1930 | .0751 | .0805 | .1179 | 61 |
| France | .1930 | .0772 | .0807 | .1158 | 60 |
| England | 4.8665 | 3.5750 | 3.76 | 1.2915 | 26½ |
| Switzerland | .1930 | .1640 | .1700 | .0290 | 15 |
| Holland | .4020 | .3058 | .3315 | .0962 | 24 |
| Denmark | .2680 | .1510 | .1705 | .1170 | 44 |
| Norway | .2680 | .1280 | .1450 | .1400 | 52 |
| Sweden | .2680 | .2030 | .2245 | .0650 | 24 |
| Spain | .1930 | .1272 | .1320 | .0658 | 34 |
| Argentina | .9648 | .6575 | .6850 | .3073 | 31¾ |
| Japan | .4985 | .4850 | .4800 | .0135 | 2¾ |

## Improvement in Europe.

Notwithstanding much that is discouraging in the European situation the balance is on the other side. The outlook is better than at any time since the war and has improved very much in recent months. There is steady improvement in physical conditions. In France the railroads have been completely restored, and this is true of the highways and canals. The farming land is 98 per cent restored to crop-bearing condition, although probably not fully up to pre-war state of cultivation. The industrial districts of France are restored to more than 50 per cent of pre-war capacity. All over Europe conditions are better. Transportation facilities are better, coal production is better, the industries are all slowly recovering. All Europe has suffered this year from extraordinary drought, but the fall sown grain seems to have stood it very well. Grass and root crops have suffered.

### Decline of Revolutionary Spirit

The greatest gain has been in the spirit of industry and social order. The revolutionary spirit is fast disappearing. The revolutionary element has had its day; it made the most of the confusion following the war, of government management in industry, government doles, and the vague though generous sentiment for a new order of society. The people are tired of agitation and of being "fed up" on

idealistic theories, conceived without any working knowledge of real conditions. Government management of industry is everywhere discredited, and the people are turning back with a feeling of relief to the old ways and methods by which they know how to get things done.

Perhaps the greatest influence of all has been that which has come from the calamitous failure of the Socialist revolution in Russia. A knowledge of conditions in Russia pervades all Europe. The labor organizations have not trusted to newspaper information but have sent delegations of their own to Russia to learn the truth, and the reports have satisfied them that however much they may be dissatisfied with what they call the capitalist management of industry, they have nothing to gain by exchanging it for the state of things existing in Russia.

This information has had a far-reaching effect upon the temper and policies of organized labor. It has tended to restore the authority of the old leaders, which for a time was shaken by the more aggressive and radical aspirants for power who came to the front.

This change is a fundamental one. It is the most important thing that could have happened for the improvement of the situation, because no recovery could take place unless the stability of society was assured. It affords a basis for credit and encouragement to enterprise.

### Great Britain

The labor situation in England, which was so menacing in April, when a general strike was threatened, has cleared away remarkably. The miners made a stubborn stand, but remarkably free from violence considering the number of men and high state of feeling. They exhausted their strike funds and large contributions to it by other labor organizations, but finally abandoned their contentions for nationalization, a pooling of all the mining districts, and all radical changes, and went back to work at reduced wages. Wage reductions have been accepted in the textile industries, steel and iron industry, engineering and machinists trades, and in many lines. The railroad employes are working on a sliding scale by which wages come down automatically with the decline of prices of certain staple commodities. A more peaceful and settled feeling pervades the situation. Trade is poor and there is much unemployment, but there is confidence that when the necessary readjustments are made a trade revival will set in.

### France

Industrial conditions in France are quiet. Wages and prices are falling, and there is no serious labor trouble at this time. Foreign trade, which has been heavily against France in recent years, in the first five months of 1921 showed a balance of exports over imports amounting to 410,487,000 francs. The national budget has not been brought into balance, and revenues for the current year are running below the official estimates, owing to the contraction of trade, but the Treasury has been able to raise money by internal loans to meet its requirements, including large sums for reconstruction purposes. It is officially stated that 27,000,000,000 francs, at the old par of exchange over $5,000,000,000, has been expended by the national government upon reconstruction since the armistice. In view of this it signifies much to say that the paper money circulation has not increased in the past year. It means that the expenditures have been met out of the savings of France, although not out of the current revenues of the government.

The great task which confronts France, and calls for the highest courage in the face of depressed industrial conditions, is that of providing homes for the population in the devastated region. The government has wisely directed its efforts first to restoring the conditions necessary for the revival of industry, in order that the people might become self-supporting. After nearly three years since fighting ceased the people are still living by hundreds of thousands under improvised shelter. This condition is keenly felt by all France, and the utmost effort will be made to push the housing program.

### German Assistance in Reconstruction

A very important conference took place in June at Wiesbaden between M. Loucheur, the French minister of reconstruction, and Dr. Rathenau, German minister of corresponding functions, to consider what might be done in the way of having Germany participate directly or by supplying materials in the work of house-building. This evidently is a very important matter, as whatever Germany can deliver directly to France will help to simplify the world trade problem which is involved in the undertaking by Germany to export of billions' of dollars worth of products in excess of her imports.

The meeting between the ministers seems to have been successful, each expressing himself highly pleased with the attitude of the other, and although many details are yet to be arranged, it is probable that Germany will supply a large part of the building materials required for the housing campaign.

A serious difficulty, however, arises in the development of this program, from the fact that France is entitled to only 52 per cent of the total annual reparation payments, and these payments are to be spread over about thirty years. France wants the houses built quickly, within the next two or three years

at the utmost. Even if Germany wished to anticipate the regular annual payments to France, some arrangement with the other allies would have to be made to permit France to receive more than her quota. Because of the urgent need for expediting the building campaign, France would like to raise money on the German reparation bonds.

### Speech by Dr. Rathenau

Dr. Rathenau, who is the head of one of the great electrical industries of Germany and was the German minister of industry during the war, in a speech before a body of German business men, is reported by the Berlin Tageblatt as describing the meeting with M. Loucheur in part as follows:

We consider that such important questions cannot be discussed without the various parties meeting and examining the economic and technical aspects of the problem together, but public opinion in France and in some other countries is still divided on this point. A certain number of newspapers, especially economic and political ones, are still of the opinion that the best methods are brutal coercion and political pressure rather than impartial investigation. The French Minister for the Liberated Areas gave proof of great political wisdom when he resolved to go to Wiesbaden to carry on personal negotiations, and there are those in France who have vehemently criticized his action. The negotiations lasted two days and were carried on entirely correctly, both sides fairly facing the difficult problems as they arose. The programme of the negotiations was as follows: the first day was to be devoted to general problems, the second to discussions of questions of detail with the collaboration of the experts. After the first day this programme was modified and the second day entirely devoted to the discussion of the general questions of which I have just given you a rough sketch. M. Loucheur and I met as man to man just like two business men or two experts.

I had every opportunity in the course of these interviews to appreciate the fairness with which M. Loucheur represented the interests of his country, and I am glad to have met a man who, like myself, intends to deal dispassionately and without prejudice with these great problems, although he fully realizes all that his country has a right to demand from us and is not prepared to waive any of it. That is the French side of the question.

In discussing the problem of reparation we must take the view that our first duty is to see how many payments in gold or currencies can be converted into payments in kind. You already know that attention has been given to a number of contracts to be placed in Germany for restoration work. The first order is for a certain number of wooden houses, estimated originally at 25,000 and which may reach that figure later; the negotiations however concern a much smaller number, about 5,000. The Commission appointed by France is making a circular tour in Germany to see models and it is possible that orders will be given later. No agreement has yet been arrived at in regard to the price. We must not exaggerate the importance of this first order which constitutes a sort of experiment. This order will cost about 10 to 12 million gold marks at the maximum, and will therefore not seem a very large one to an industrial concern of any importance, nor make much difference to Germany as a whole.

If we are to succeed, in the course of the private negotiations which are now to be instituted, in solving the problems I have just mentioned to you, it will be necessary to set up a body to be entrusted with the duty of grouping and impartially distributing the contracts given by France. We must not underestimate the importance of this question. There are 2,800,000 people who have suffered loss in the devastated areas who must be given the opportunity to make known in what measure they wish to make use of the services of Germany, and a body must be set up in Germany to meet legitimate requests addressed to us by the different areas for co-operation in the work of reconstruction and by the different trades, all having an equal right to profit on the orders. Both manufacturers and agriculturists have the right to expect to receive orders, but the various trades may also bid for them, and the syndicates have a right to examine in detail the problems which arise and to take part in discussions on the supplying of German labor.

The idea, a perfectly reasonable one in itself, of entrusting the professional groups with the duty of delivering supplies and the district groups with that of distributing the orders amongst the various regions, has now been realized, but we cannot yet say that it has been proved that this work has hitherto been done by these organizations as promptly and as surely as it will have to be done in the future, if these large orders are to be given to Germany. In many cases unjustifiably high prices have been asked, and in other cases the professional groups have rejected proposals where the prices suggested have been inferior to their own. These are all very difficult questions to deal with.

I cannot today, gentlemen, go at length into the question of the forms of the organizations which must be set up, but I can say, with all due respect to those who worked so well for Germany during the war, that I will have nothing resembling any of the war time organizations. I know that many will not agree with me here, but it is impossible to please everybody. The first conditions which must be fulfilled by any organization are regular functioning and an equitable distribution of profits, which shall eliminate all possibility of a fresh class of profiteers which we might call "reparation profiteers" springing up.

This conference has been one of the most hopeful of recent developments in Europe. The attitude of both ministers seems to have been that of business men who were agreed upon a situation and had set out upon a practical policy for dealing with it.

### Germany

Conditions in Germany are disturbed by the situation in Silesia. The present cabinet has had to take the responsibility of accepting the allied ultimatum and it might not be able to stand an adverse decision as to Silesia. There is general confidence in Europe in the honest purposes of the present cabinet. It is believed to be actuated by a sincere desire to build up a new Germany, democratic in spirit and free from militaristic ambitions. It goes without saying that it does not in these purposes represent all of Germany, for that is not to be expected, but it is entitled to respect and the allies may well consider the advantages to be gained by policies which will enable this kind of a government to gather strength to itself in Germany.

The provisions of the treaty which bases the indemnity payment in part upon the volume of German exports is very unsatisfactory in Germany. It is said that the influence will be to injuriously restrict Germany's foreign trade, particularly with nearby countries. Thus it may be advantageous to import coal into eastern Germany from Poland and export coal from south Germany to France, Switzerland, Holland, etc., but 26 per cent of the value

of all exports must be paid as indemnity. Dr. Rathenau, in the address referred to above, referred to this 26 per cent levy in the following terms:

The second part of our task will consist in trying to replace the index of 26 per cent by some other arrangement. The ultimatum itself implies the possibility of such a change, and I consider that it is becoming more and more obvious both at home and abroad that the present index of 26 per cent on the total value of German exports is not a satisfactory criterion, either from our own point of view, as it would constitute a great hindrance to our export trade and would be in the nature of a prohibitive measure, or from the point of view of the Allies as it would have the effect of depreciating the value of the bonds possessed by France, and it would be difficult to interest the international money market in bonds resting on an index of this kind, which would entail a dangerous element in the export policy of the country.

This index will injure Germany's credit; foreign countries will surely say: What will eventually happen to a country threatened with a punishment which is to be harsher in proportion as its foreign trade becomes more extensive? It is very clear that subsequent German Governments may take up a very different attitude in the face of this new and difficult problem from that taken up by the present one. One Cabinet may say: In spite of the index we wish to encourage our export trade. But another Government may come afterwards which will say: On account of this index we wish to try and limit Germany's economic activities to the home market. Such variations of policy would be hurtful, not only to Germany but also to her neighbors, and especially to those countries which are receiving the indemnity. I consider for these reasons that the 26 per cent index is one which all parties will find very difficult to apply and that it should therefore be replaced by some other index.

The industries of Germany, from all accounts are in better condition that those of any other country in Europe, although there is a tendency in all other countries to overstate the situation and the advantages of Germany's low exchange rate. All of the industries are not prosperous, and reports that works are running ten and twelve hours per day are incorrect. More than eight hours' work per day is forbidden by law, one of the reasons for it being to assure a distribution of work to all, which would not be an argument if there was plenty of work.

#### The German Labor and Wage Situation

A well-informed writer in a recent number of the London Economist discusses at some length the labor situation in Germany and the tendency of wages. He throws light upon a subject very generally misunderstood. He says, in part:

The underlying assumption that throughout a long term of years German cheapness, which is a vagary of the incalculable foreign exchanges, will prevail, is not justified by observation, any more than it is by economic theory. German gold prices, as I showed last week, have been overtaking the higher gold prices of the gold exchange countries. German nominal prices (commodities) are today almost exactly the same as they were in February, 1920, when the dollar exchange touched 104 marks; the dollar is today 69; and in the meantime the gold prices of the United States have fallen to about half their maximum. The belief that the German workman works for long hours is mistaken. He works for eight hours, in coal mines for seven hours; if a bill already submitted is passed he will work in all mines for seven hours, and last year in the Ruhr mines a general strike was threatened in favor of six hours. The assumption that German workmen work, and will work, for extremely low wages is based on confusion between nominal wages, gold wages, and real wages. German gold wages are very low. The German real wage, the only wage that comes into account in considering working-class "content," and "apparent acquiescence," is not low. It is considerably higher than before the war. The cost of living index (Statistical Bureau's) is 880; the Wages Index (Frankfurter Zeitung's) is 1,132; in other words, real wages are 30 per cent higher than before the war. Further German workmen show the same persistency as British or American workmen in pushing up or keeping up wages. Between January, 1920, and April, 1921, the cost of living in Germany rose 50 per cent, whereas nominal wages, always as the result of agitation, rose 120 per cent; so that the present movement is altogether for a higher real wage. Naturally, in foreign trade competition it is not real wages, or nominal wages, but gold wages that count. But the German nominal cost of living is kept at its present level only by price-restriction and food-subsidizing. This is no permanent system; a great part of it has been abolished, and the rest is to be abolished; and should the cost of living in consequence rise there is no doubt that workmen will demand higher wages as they did when cost of living was rising in 1920; and this, given a stable exchange, will mean a rise in gold wages. A new vagary of the exchanges (and the mark exchange in three months of 1920 rose 200 per cent) may upset all these calculations, so that calculations for 40 years ahead based on a present exchange level are not convincing. In fact, it is not easy to see how the reparations payments can be made unless the German workman does consent to work long hours for low wages; the difficulty is that German workmen show no consciousness of the necessity. The practicability of the plan to compel Germany to pay in certain kinds of goods which do not compete with British industry is doubtful. The coal output of Germany cannot be rapidly increased; for two years the attempts made have for labor and technical reasons, failed; potash is not being bought by America, the chief former customer, because it is already too dear, and France, the chief reparations claimant, is herself exporting potash; and the sugar abundance which Mr. McKenna points to does not exist.

The finances of the German Government are still in bad shape, with the volume of currency increasing, but too much emphasis should not be placed upon this. There is reason to believe that the situation is not so far out of hand as may appear, and that by doing away with food subsidies, placing the railroads on a self-supporting basis and other reforms the situation may be rapidly improved.

The crops in Germany this year are very good, which will permit a reduction in food importations.

## Cattle Loans.

Organization of the cattle loan pool, to which Eastern and Western bankers are contributing jointly $50,000,000, has been definitely completed and the pool has already begun to make loans. Reports from the Southwest indicate that the plan is meeting with favorable reception on the part of cattlemen, and that the funds thus provided will do much to relieve the desperate situation which cattle growers have been facing during recent months. Operation of the pool is also expected

to be of assistance to many banks in the cattle country, in that the new funds thus provided will make possible, in many cases more gradual liquidation of previous obligations.

Steps have been taken to make negotiation of a loan from the pool as simple as possible. Applications are made through local cattle loan companies or banks, and the deciding factor in determining the percentage to be loaned against a given herd is governed, as is usual in such cases, by the individual's credit standing in his own community, and by his probable ability to meet his obligations as they mature. Loans are being made on a six months basis so that the paper will be rediscountable at the Federal Reserve Banks, but may be renewed up to a maximum of 30 months.

Correspondents of The National City Bank in the Southwest inform us that Mexico is now taking large numbers of American cattle, both for slaughter and to replenish breeding herds. Since our own breeding herds constitute the foundation of the cattle industry in America, one of the foremost purposes of the cattle loan pool will be to aid in preventing their further depletion here.

## The Bond Market.

At the beginning of this month a definite improvement in the bond market was noticeable, and the demand for industrial, railroad and public utility, and especially state and municipal, bonds continued to increase throughout the month. This change in sentiment is attributed partly to the continued lack of new corporate financing during the previous month as against a large amount of funds seeking investment as a result of July 1st dividend and interest payments and the general easing in the rates for money. July ended with a very strong market, an advance of approximately one per cent being noticeable in the case of some of the better known and more active issues.

During the latter part of the month Northern Pacific 6s sold up to 100, Great Northern 7s up to 100, and Chicago, Burlington & Quincy Joint 6½s up to 100⅛, compared with the price of 96½ at which these bonds were originally offered in the latter part of April.

On July 21 the syndicate managers for the $100,000,000 Republic of France 7½ per cent bonds announced the entire issue had been sold, and there are many indications that the supply of bonds in the hands of dealers is very small.

A number of new railroads and corporate offerings were made during the month, and in practically all cases it was reported that the entire issues were quickly absorbed, and in many instances the securities were later in demand at higher than the original offering prices.

### Corporate Issues for the Month

Following is a list of the more important new corporate issues offered during the month:

| | |
|---|---|
| $25,000,000 | Canadian Northern Ry. 25 yr. 6½% S. F. Gold Debenture Bonds, at 96½ and interest, to yield about 6.80%. |
| 6,000,000 | Commonwealth Edison Co. (Chicago) 6% 1st Mtge. Bonds, due 1943, at 91½ and int., to yield approximately 6¾%. |
| 7,000,000 | Rochester Gas & Elec. Corp. Genl. Mtge. 25-yr. 7% Gold Bonds, Series B, at 96 and int., to yield about 7.35%. |
| 3,500,000 | Salt's Textile Mfg. Co., Bridgeport, Conn., 1st Mtge. 15-yr. 8% S. F. Gold Bonds, at 99½ and int., to yield over 8%. |
| 8,000,000 | Illinois Central R. R. 15-yr. 6½% Secured Gold Bonds, at 97¼ and int., to yield about 6.80%. |
| 4,987,000 | American Dock & Improvement Co. 1st mtge. Extended 6% Bonds of 1881, due July 1, 1936, at 97½ and int., to yield over 6.25%. |
| 6,000,000 | Commonwealth Edison Co. 1st mtge. 6% Gold Bonds of 1908, due June 1, 1943, at 91½ and int., yielding about 6¾%. |
| 5,000,000 | (Edward) Hines Associated Lumber Interests 1st Mtge. 8% Serial Gold Bonds, due July 1, 1924-35, at par and int. |
| 4,000,000 | Atlas Powder Co. 15-yr. 7½% Conv. Gold Bonds, at 96½ and int., to yield 7.90%. |
| 4,000,000 | Constantin Refining Co., Tulsa, Okla., 1st mtge. S. F. 8% Bonds due June 1, 1922-26, at par and int. |
| 6,000,000 | Jacob Dold Packing Co. 6½% Cumulative Preferred stock at par. |
| 4,000,000 | Detroit United Ry. 1st mtge. 8% S. F. Gold Bonds, due part Aug. 1, 1922 and part Aug. 1, 1941, at 99½, to yield 8.50% for one-year bonds and 99, to yield 8.10% for 20-yr. bonds. |
| 5,569,000 | Detroit Edison Co. 6% 1st and Ref. Mtge. Gold Bonds, due July 1, 1940, at 88 and int., yielding over 7.15%. |

### Municipal Securities

The outstanding feature of the July bond market was the keen competition among dealers to purchase at advancing prices the very large number of important state and municipal issues which were reported as having been quickly distributed among investors, savings banks and insurance companies. Some of the large issues were:

| | |
|---|---|
| $1,502,000 | Province of New Brunswick 6% Bonds, on a basis of about 6.17%. |
| 4,277,000 | Baltimore, Md. 5% Stock, on a basis of about 6.13%. |
| 1,500,000 | State of Oregon 5¾% State Highway Bonds, on a basis of about 5.71%. |
| 1,000,000 | Govt. of Porto Rico 4½% Public Improvement Bonds of 1920, at a price to yield slightly over 5.20%. |
| 3,000,000 | State of Washington Genl. Fund Bonds, on a basis of about 5.83% for 6s, with option on the remainder until Sept. 1 as 5¾s on a basis of about 5.74%. |
| 1,800,000 | State of Wyoming 5% Highway Bonds at par. |
| 4,878,000 | State of California 5¾% Highway Bonds at price to yield from 5.75% to 5.40%, according to maturity. |
| 10,000,000 | State of Michigan 5¾% Bonds, on a basis of about 5.71%. |
| 2,250,000 | Newark, N. J. 5½% Bonds, on a basis of about 5.49%. |
| 5,000,000 | Philadelphia, Pa. 5½% Bonds, on a basis of about 5.20%. |
| 5,000,000 | Province of Ontario 6 % Debentures, at 99.827. |

# AMERICA AND EUROPE

**Their Present Relations—Credits—Debts—Reparation Payments—Common Interests—Address Before the International Chamber of Commerce, London, June 29, 1921.**

The International Chamber of Commerce is an outgrowth of the International Congress held in the United States in 1919, when Chambers of Commerce over the world were invited by the Chamber of Commerce of the United States to send delegates to this country for a conference upon matters of common concern, and particularly the problems arising from the war.

A second Congress was held in Paris in 1920, at which time the International Chamber of Commerce was formally organized, with M. Etienne Clementel, Minister of Commerce in the Cabinet of the French Government, as President; M. Edourd Dolleans, of Paris, as Secretary, and a Board of Directors made up of prominent business men resident in nine countries. The International headquarters are at 33 Rue Jean Goujon, Paris, in a building provided by the French Government.

The Third Congress was held in London, June 27-July 2, this year, with an attendance of about 1,000, representing Chambers of Congress in seventeen countries. To facilitate discussion of the numerous matters under consideration the delegates met in sections, and on June 29 the section upon Finance having under consideration the subject of "Export Credits," George E. Roberts, Vice-President of The National City Bank of New York, on behalf of the delegation from the United States, addressed the body as follows:

#### Address of Mr. Roberts of the American Delegation

Mr. Chairman and Gentlemen:

In view of the interest that has been manifested by many delegates the economic position of the United States, and its ability and disposition to create credits in the present world situation, it has been thought well by the American delegation that a somewhat detailed statement should be made in their behalf upon the subject.

The American delegation has come to this meeting with a very profound sense of the gravity of existing industrial and social conditions over the world, and of the need for international co-operation in dealing with them. The United States in common with all other countries is suffering from the disorganization of industry and the exchanges which has resulted from the war, and fully realizes the importance of restoring trade relations between countries.

There has come to all peoples in this period of depression a clearer understanding than they ever had before of their mutual interests and dependence. The world had developed before the war a very highly organized system of production and exchange. It was a vast co-operative, voluntary, system which had grown up so gradually, and by the contributions of so many people, that we scarcely understood either the extent of our interdependence or how it came to be. There was little general comprehension of the economic principles underlying and governing these relations. Few people thought enough about them to appreciate the gains that accrued to all classes, for example, from a common standard of value. from the interlocking banking systems of all countries, from the development of specialized ability in industry and in trade, and from modern facilities of communication and transportation—all tending as they did, to improve the living conditions of the populaton everywhere.

This system of interchange of products and services was interrupted and in part broken down by the war. Then, with the exchange of goods in large degree stopped, difficulties developed about making payments even for the shipments that were made. And, finally, the enormous inflation of currency in the form of lawful money or bank credit, varying in the different countries, compelled a general suspension of gold payments and abandonment for the time being of the gold standard as a common measure of values, and has made the state of confusion in some quarters almost hopelessly complete.

#### Unsettlement of the Social Order

Unfortunately this is not all or even the worst of the difficulties. The most serious have arisen from the general unsettlement of the social order. There always has been, and in a progressive society inevitably will be, more or less social discontent, but the interruption of regular industry during the war, the rise in terms of money of the cost of living, and the emergency pressure which constrained governments to satisfy every demand—all tended to develop discontent and to encourage the belief that radical changes in social conditions were possible. The effect has been to confuse and unsettle the minds and impair the efficiency of millions of people. At a time when the world has needed production more than ever before, the hours of labor have been universally shortened, and production reduced in even greater proportion. Wages and costs have been forced up until value-relationships throughout industry are dislocated, and the exchange of goods and services thus made more difficult. Attempts to put the entire burden of heavy taxation upon capital, and to

force a greater distribution of wealth for current consumption, tend to reduce the amount of capital available for permanent improvements at the very time when investments of this kind are necessary to make good the deficit of the war time. And, finally, the agitation against property-rights tends to impair confidence and credit and to cripple enterprise. The combined effect of these demoralizing influences is to produce stagnation and unemployment, and to delay recovery from the state of disorganization and distress resulting primarily from the war.

#### Normal Trade and Industrial Relations Must Be Restored

The world must restore the old state of cooperation which existed before the war as between classes and occupations within each country and between countries. The compensation of workers in the different industries must be brought back into normal relations, in order that the exchange of products and services may go on. In the United States approximately one-half of the population are engaged in producing foodstuffs and raw materials, a considerable share of which must be exported and sold in world markets. These products have fallen to pre-war prices or below, while the products of the town industries, held up by labor-costs and understandings of various kinds, have undergone comparatively slight reductions. The result is that the producers of agricultural products and raw materials are unable to buy more than about one-half as much of the products of the town industries as when all products were on a common level of value. There can be no revival of prosperity until a readjustment of these relations is accomplished.

And so there must be a resumption of trade relations between countries. The United States is a country of varied natural resources, and as well constituted to live within itself as any other country. Normally our foreign trade does not exceed 10 per cent of our total trade, but we see that the demoralization of our foreign trade has prostrated the entire domestic business as well.

We need to restore the old relationships everywhere, to open the old channels of distribution and old sources of supply. We don't want to go all over again through the slow processes of growth and organization. We don't want to take time to make ourselves self-supporting in every country. We don't want to take time to find new customers, to learn new trades, to equip with new machinery, and to redistribute the population in new occupations. We want to start up the old machinery, tie up the severed relationships and go on as before.

This means that each country in studying to help itself must study the world situation. The purchasing power of every country is in its own powers of production. Every country must have its own people employed; it must produce and sell somewhere in order to buy. The trade of the world must balance and clear itself in order to have prosperity. In short, we must set up the whole world machine in order to get our own part of it into running.

#### Fundamental Conditions of International Cooperation

The problem of restoring international trade divides itself into accomplishing those things which a nation must do for itself and those things in which the nations must act together. In the present disorganized state of trade there is greater need for the use of credit in getting the movement started than in ordinary times, while the uncertainties which exist make all business more difficult and credit naturally harder to obtain. First of all the conditions essential to credit is the maintenance of an orderly state of society, which includes a stable government having the support and willing obedience of the people, recognition of property rights, general willingness on the part of the people to work and maintain an effective state of industry. These are the foundations of credit everywhere; and the more clearly it appears that they are understood and the benefits thereof recognized by all classes, the better the credit of a people will be.

The current regular expenditures of the Governments should be met by taxation, as laid down in the admirable declarations of the Brussels Financial Conference. If the ability to pay taxes is low, there should be unhesitating courage to reduce expenditures correspondingly. The people must be brought to a realization of the necessity of paying their way, and of the futility of such expedients as printing currency to meet Treasury deficits. In short, every effort should be made to get industry and trade back upon a sound and normal basis. Subsidies and regulations hampering business, originally arising from war conditions, should be done away with.

In addition to these basic conditions it may be desirable that in some countries there shall be a mobilization of resources, upon the general theory embodied in the ter Meulen plan, for the purpose of creating the highest form of credit obtainable under existing conditions.

When these things have been done on the side of the nations desiring to import goods and to obtain credit, the responsibility for a revival of trade will be shifted to the nations having a surplus of products for export, and which are the accustomed source of materials and supplies. When the countries which have

a natural deficiency of supplies for the sustenance of their population and the operation of their industries have done all that it is in their power to do, the exporting countries blessed with a wealth of natural resources must somehow find a way to do their part. The common obligations of humanity demand it, and their own interests require it. They will never see prosperity in their own streets until they do it.

#### Position of the United States of America

The delegation from the United States are deeply impressed with the responsibility of their own country in this connection. They recognize that its responsibilities are commensurate with its resources and ability to give aid.

The potential resources of the United States are very great, indeed, both in natural supplies and productive capacity. It has a large surplus of foodstuffs, great capacity for producing raw materials, and the facilities for mass production of manufacture in many lines, especially in steel and industrial and railroad equipment. In fact the variety and capacity of our industries are such that our perplexity in world trade is in determining what we are willing to take in exchange for the things we are anxious to sell.

In brief, we have the ability, measured by productive capacity, to supply the world with a great amount of capital in the form of our products, but there are difficulties in connection with doing so which we would like you to understand.

This ability to produce goods and materials, as you know, is private ability. The production is by private enterprise and privately-owned works The companies and individuals conducting the operations cannot sell the products around the world on credit. The farmer must be paid for his crop, because he must have the means of paying his own operating and living expenses. The manufacturer must be paid for his goods because he requires all but a small part of the proceeds to pay his own wage-workers and meet other operating expenses.

In ordinary times the movement and distribution of goods from producers to consumers is handled by the traders, with the aid of the banks and financial houses, and it is accomplished largely by the clearing process—a system by which the stream of goods moving one way is offset against the stream moving the other way, and the trade is made virtually to settle itself. Now the balance for the time being is lost, and the problem is to restore it. Temporarily an extraordinary amount of credit must be used to keep the unbalanced movement going.

There must be a general mobilization of capital and credit to take these products from the producers for cash and sell them where they are wanted on credit. A new supply of capital and credit must be brought into the gap. The ordinary supply of credit is not sufficient, and the short-time credit afforded by the banks is not adapted to the situation. The banks are handling temporary funds, the great bulk of which are payable on demand. Obviously they cannot tie up these funds in transactions which will have to run for a term of years.

#### The Investment Market

The other recourse is to the investment market. Securities issued by the corporations or governments of importing countries, or issued by American corporations and based upon the proposed credits, must be sold to individuals who have a surplus of funds for investment, and we would like you to understand the conditions surrounding the investment market at this time.

In the first place while the wealth of United States, as shown by census returns, is very great, it must be remembered that it is comprised of property spread over a vast extent of territory, of widely distributed ownership, and consists very largely of real estate, i. e., farms and town property. The United States is still a new and developing country, and in most sections of it the people are accustomed to devote their surplus incomes to the extension of their own immediate businesses or for other local undertakings. The number of people accustomed to invest in securities listed on the stock exchanges or offered in the public market has always been relatively small. The amount of wealth held in the form of securities is relatively small, and it will not do to base expectations about what the country is likely to do in the way of buying securities upon the wealth reported by the census. It takes time for people to acquire the habit of investing their money away from home and in the custody of others, and particularly to become used to the idea of making investments in foreign countries. Our people distrust their own judgment when it comes to investment in foreign securities.

Down to the beginning of the war practically no foreign securities ever had been sold in the United States; during the war a few issues for the allied and neutral governments were sold there. Since the armistice something over one billion dollars of foreign government securities have been sold there. This shows that we are making progress in developing a world market, but it is a process of growth.

Down to the outbreak of the war we had been accustomed to look to the European

market for capital for ourselves. It was a cheaper and broader market than our own.

#### Present Demands Upon the American Market

It must be remembered that during the war our development work was checked by the fact that the government loans aggregating about $25,000,000,000 swept up the available funds, so that now every part of the country is in need of capital for local improvements. We are needing to build houses, to spend large sums upon our railroads and public utilities, which generally suffered deterioration during the war.

The competition for capital for these purposes has made interest rates high and the new offerings of securities at high rates has had the effect of depressing the entire list of outstanding securities and stocks, so that they yield high returns upon present values.

Other factors in the situation are the high rates of taxation and the large amount of securities that are exempt from taxation. Under our political organization the obligations of the Federal Government are not subject to local taxation and, reciprocally, the obligations of states, municipalities and the lesser subdivisions of government are not subject to Federal taxation. The total amount of securities wholly exempt now outstanding is estimated at approximately $15,000,000,000, and is constantly being increased by new issues.

#### Competition of Tax-Exempt Securities

The United States Government issues that are totally tax-exempt yield at the present market 3¾ to 4¼ per cent., and other federal issues 4.60 to 5.60 per cent. Municipal securities pay a tax-free income of from 4½ per cent. in the case of certain choice issues up to 7 per cent. in the case of numerous small cities whose credit is not so widely established, but is nevertheless perfectly good.

The presence of this large body of tax-exempt securities has the effect of practically eliminating investors of high incomes as buyers of securities subject to taxation. To an individual with an income subject to our maximum tax, an exempt 4 per cent Federal or Municipal bond yields an equivalent of nearly 15 per cent. interest. Conversely, a taxable 7 per cent. investment such as a real estate mortgage, an industrial or railroad bond, or a foreign government bond, after tax payments actually yields less than 2 per cent. This calculation is based on Federal taxes only, and there is local taxation to be considered besides. Many of the States have income taxes, the maximum rate in New York State being 3 per cent.

It should be understood, also, that the Treasury of the United States faces the necessity of doing an extensive amount of financing. Within the next two years short-term obligations aggregating $7,200,000,000 fall due and must be met in the main by refunding operations. While it is true that these operations will not require borrowing in excess of the payments to be made, they will involve an increased demand for investment capital, inasmuch as the banking institutions now carrying short Treasury obligations will avoid the long-term obligations into which conversion is planned. The public market will be affected by the competition of the Treasury for investment funds.

#### Financial and Industrial Conditions in the United States

We understand that it is a common opinion abroad that the wealth of the United States was greatly increased by the war, but this is a fallacy. The United States was growing in wealth before the war, and there is good reason for believing that this growth was checked rather than stimulated by the war. It is true that during the first years and before entering the war as a combatant, the nominal wealth of the country increased very rapidly, and the real wealth also increased at greater than the normal rate. But after the country entered the war its own expenditures were very great and the deterioration of property and loss of normal development was very serious. Moreover, a large part of the nominal profits made during the period of rising prices has been lost in the period of falling prices and the country is now experiencing in idle industries, business depression, unemployment and bankruptcies, a reaction which is costing an amount that cannot be measured. We are paying now the natural penalty of abnormal prices and abnormal profits, and when we are through with it the record is likely to show, as for every other such experience, that the balance is in red. We have a great body of internal private indebtedness represented in part war-financing, but more largely speculation and extravagance induced by the rise of prices. Our people now face the necessity of liquidating this indebtedness with products at low prices and with business stagnant and unprofitable.

#### High Interest Rates

These are some of the conditions which we would like you to understand in forming your judgment upon what the United States has done and may be reasonably expected to do in the way of financing Europe. You have found it necessary to pay high interest rates upon your borrowings there; we see the terms commented upon in European papers as "extortionate." But these loans must be offered upon the public market and we ask you to consider that it is useless to offer large issues in any market of the world at less than the current

rate for good home securities in the same market. It is not the fault of the American banker that interest rates are high; it is his business to give the best advice he can as to the requirements of the market, and it is enough to say in vindication of his advice in the past that the European issues which have been placed on the American market heretofore may be purchased to-day at an average of practically the original issue price. A few are slightly above, but more are below.

#### Widely Spread Resources and Population of the United States

This statement of conditions in America is not made for the purpose of discouragement, but in order that there may be a good understanding. The bankers and business men of the United States who expect to exert themselves actively to the end that their country will come with all the strength it can summon to the relief of this world situation, want you to understand the conditions with which they must deal. The capital which the world needs can be largely supplied from the United States; the potentialities are there; but they are scattered over a great continent and in the hands of millions of people whose interest and co-operation are necessary. The main body of these people live in the interior, back from the Atlantic coast, some of them as far west of New York as New York is west of London. If you should lay the map of the United States upon the map of Europe with New York upon London, the important city of San Francisco would fall somewhere beyond the Ural Mountains, over in Asia.

I mention this only to show that, inevitably, these people are more or less provincial in their outlook, in the sense that local interests dominate. They are remote from Europe, and their relations with it are mainly indirect. It looks like a long way for them to go to invest money which just now they need very much in the management of their own affairs. It is a question how far an appeal addressed to them by the business interests of the eastern seaboard will move them, for they do not by any means consider the interests of the eastern cities as identical with their own. They are a people of high intelligence and will respond eventually to the necessities of this situation, as they did to the conditions which brought America into the war; but nobody can speak for them but themselves, and the very nature of the situation is such as to present difficulties in obtaining from the whole country prompt and co-ordinate action. It cannot be done offhand; it depends upon the spread of public sentiment over a great area. You must take America as she is, and judge her by the conditions which make her what she is—for the same conditions probably would affect any other people in like manner.

#### The Reparations Agreement and Bonds

America has welcomed the settlement of the terms of the Reparations Agreement, and accepts the declarations of the German Government of its purpose to pay, as made in good faith. It believes the terms to be just and that they should be strictly carried out, so far as they prove to be economically practicable. American financiers, however, have viewed with some concern the statements emanating from several countries to the effect that the Reparation Bonds would be offered in the United States. From their point of view it would be unfortunate to have them introduced into that market at least at the present time. In the first place they are five per cent bonds, and the American market at this time is on an eight per cent basis for the best of foreign securities. There is reason to believe that the German bonds would not rank in that class. Without raising any question about the German purpose to pay, the undertaking of one country to pay so large a sum outside of its own borders and in foreign monies must be regarded as more or less of an economic experiment. Its success depends not only on the ability of Germany to export goods, but upon the willingness of other countries to import them. It is impossible to say in advance what effects such a volume of exports from Germany will have upon world markets, or what the attitude of countries toward them will be. It is not clear even what the attitude of the countries receiving indemnity will be toward German exports.

#### Danger of Spoiling the Market

Having regard for the low interest rate as compared with current rates in the United States, and for other features of the situation, it is certain that the Reparation Bonds would have to be sold at a low price to be moved in that market. If anything like a competitive situation developed among sellers, with so large a possible supply, the market might be demoralized. In short, it would be easy under the conditions to spoil the market not only for these bonds but for foreign offerings generally, and seriously interfere with all efforts to aid the European situation. Any experienced investment banker will confirm the truth of this statement.

American bankers feel that it would be unfortunate to have these bonds offered in a market that was not receptive to them, and sold at low prices. The countries receiving them as indemnity would be disappointed and critical of America for what would be regarded as extortionate terms, and Germany probably would be aggrieved over being compelled to

pay so much more than was actually realized by the recipient countries. In all likelihood it would be said on all sides that the United States, which professed to want no indemnity at all, had found a way to obtain the lion's share. The prospect would seem to be good for the United States to get itself thoroughly disliked in all quarters. We wish to avoid getting into that position.

#### The Governmental Indebtedness

The question of the indebtedness of the Allied governments to the Government of the United States, amounting in the aggregate to approximately $10,000,000,000, is another delicate subject which we realize has great interest for many of our associates in this International Chamber. We are aware that many people think that for various reasons there should be a cancellation in whole or in part of this indebtedness in connection with a general readjustment between the governments that were associated in the war. I have not the time to review the arguments and no inclination to discuss them in a controversial manner. There is influential support for the proposal in the United States, but candor would compel us to say that there is no large body of pronounced opinion in favor of it at this time. There is not such a body of opinion as would justify this delegation in giving any encouragement that cancellation will be entertained. It should be understood that the executive branch of the government of itself has no power to alter the conditions laid down in the Act of Congress granting authority for the loans. This means that nothing can be done except by action of the Congress, whose members come directly from the people of all sections of the country, and it is quite certain they will not act in a matter of so much importance without a definite expression of consent and approval by their constituents. At present it must be said that the American public is not convinced either that justice to its late associates requires that America should take such action, or that the emergency confronting the debtor countries is so great as to require cancellation in order that they may regain a sound economic position.

#### Public Opinion in the United States

It is true that when a country has declared war its own interests require that it shall use every resource at its command to overcome the enemy as speedily as possible. Fighting alone it will do so, and if it has allies it naturally will withhold no aid that will make their efforts more effective to the common advantage. This affords a basis for the view that each country is impelled in its own behalf to make the largest possible contribution, both directly and indirectly, and that no other measure of the proper contribution of each country to the common cause is practicable. But admitting that from the day the United States entered the war it was necessarily committed to the full use of its resources to achieve victory, it remains true that in order to understand the view of the American people as a body it is necessary to consider the conditions under which they entered the war and their habitual attitude toward European political affairs. They are a great composite people, living a long way from the seat of the conflict. That they should be involved in a European war came as a great surprise to them. They had endeavored to avoid European entanglements. They did not feel that they had any responsibility, historical or otherwise, for the war, or that they were as vitally related to it as the peoples of Europe. This does not imply blame or criticism of any of their associates, but simply that they considered themselves fortunately placed outside the area of European controversies and entitled to the immunities of their position. They entered the war, as they believed, for just and righteous reasons, and cheerfully made heavy expenditures of life and money upon it, but they have never felt that primarily it was their war, or that there was any good reason why they should assume more than the expenses of their own efforts in it.

That reasoning may seem superficial and fallacious to people who view the situation from a different position—but again we would repeat that the attitude of the American people probably is not different from what would be the attitude of any other people under similar circumstances. In any event, as fellow-delegates in this Congress, we feel the responsibility of describing conditions to you as they are.

#### Mutual Interests Require Postponement of Payments

On the other hand it does not follow from this view that the American people have any disposition to pursue a harsh and peremptory policy about these loans. They have postponed temporarily the claims for interest payments, and at the instance of the present administration a bill has been introduced in the Congress giving the Secretary of the Treasury plenary powers to extend the time of payments upon principal and interest. We believe that public opinion in the United States will approve of every act of accommodation that is necessary to handle this indebtedness in such manner that it will not embarrass the debtor nations in their recovery or inflict hardship upon them.

Aside from the disposition of the American people to follow this course from motives of friendship and consideration for their late as-

sociates in arms, there are other reasons why they should do so, some of which may give greater assurance than any statements from this delegation.

There are economic reasons why the United States should not desire payments upon this indebtedness under present conditions. There is a natural equilibrium in economic affairs which all parties are interested in maintaining. The United States is a great exporting country. With her vast productive capacity she is anxious to maintain and increase her exports, but finds herself to-day confronted in every foreign country by exchange rates which put her at a disadvantage in the competition. If in the present state of trade the United States should ask for the payment of accruing interest upon these loans, and the debtor Governments should go into the markets and attempt to gather up exchange to make the payments, the effect would be to raise exchange rates on New York still higher and bring our exports to a standstill. In short, the United States, from the standpoint of its own interests, cannot afford to accept payments of either principal or interest from the debtor governments at this time. It will handicap and imperil our own trade by doing so. Moreover, if the time ever comes when we can accept such payments without injury to our own trade, by that token the situation will be such that the payments can be made without hardship to the debtors.

#### Practical Results of the Debtor and Creditor Relationship

The position of a creditor country has been reached very suddenly by the United States, and the perplexities of the situation are largely due to that fact. If the development had come in the normal course of trade, there would be nothing alarming in the fact that Europe owes the United States \$10,000,000,000 or \$15,000,000,000. Before the outbreak of the war the world owed Great Britain approximately \$20,000,000,000, but that indebtedness was giving nobody any concern, because Great Britain continued from year to year to re-invest the income largely in the debtor countries. The fact is that the debts of the world to Great Britain, including all of its foreign investments in that category, were always growing and nobody ever raised a question as to how or when they would be paid off. Collectively they were not expected to be paid off, and that suggests a question as to the actual burden involved in a body of indebtedness of which neither principal nor interest ever is to be actually paid! A creditor country under normal conditions is like a rich man who seldom reduces his investments, but rather is always adding to them.

I might go farther, and develop the thought that it makes very much less difference than is commonly thought where a body of securities is owned, provided the income from them is available for investment wherever in the world the best opportunities exist for the development of industry and for increasing the production of staple goods of world-wide consumption. Most of the controversies over the ownership of wealth are based upon the assumption that nobody gets any benefit from wealth but the people who hold title to it, which, of course, is a gross fallacy. The benefits of wealth in productive forms are diffused throughout society, scarcely hindered by national boundaries. To a very much greater extent than we are accustomed to think the wealth of the world is a common fund, whoever may hold the titles of ownership and wherever it may be located.

#### The Lesson of Mutual Interests

This may seem to be a kind of talk best appreciated by the owners of wealth and by the people of a creditor country, but I am trying to point out how the interests of countries are intermingled. What I am saying now is intended as much for our own people in the United States as for you. We want to sell our products, and we cannot sell them in normal quantities and collect these debts at the same time, at least under present world conditions. Unless we handle this indebtedness with a proper regard for the trade upon which our industries are dependent we will lose more than the debts amount to. That is the lesson in relationships which goes with our new position as a creditor country. We are not very clear about it yet, because the position is new to us, but we are not slow to discover that high exchange rates on New York raise the cost of all American products to foreign buyers. This fact affects every grower of cotton and every producer of grain and live stock in the United States, and whatever affects them likewise affects everybody else in the United States. I venture to say to you that exchange rates and the prices of international products constitute the most powerful influence for the dissemination of wholesome instruction about international relations that can be exerted. They are teaching that the world is one community and that prosperity or depression in any country exerts an influence for prosperity or depression in every other country.

#### Summing Up

In conclusion and to sum up: This delegation from America has no commission to make promises. It can express only its own opinions. It believes that now the indemnity terms are settled, and that peace and social order in Europe appear to be more firmly as-

sured than at any time since the war, the prospects for international co-operation are greatly improved. They are convinced for themselves and believe that the American people are generally impressed that there will be no prosperity in our own country, no markets for our own products, until international trade is again flowing in accustomed channels. The importing countries desiring credit must do their part: they must supply the best basis for credit they can offer, remembering that those of us in the United States who desire to work with them are obliged to go out to the public market and find the money with which to pay for the things that are wanted. The bankers who handle the securities must comply with the conditions of the market, and they must be able to offer securities they can recommend.

Finally, the needs of Europe should be presented in definite form. There should be something like a general survey in each country to determine what is wanted, and what is most wanted, in order to restore the productive capacities of the country. If it is agricultural implements, a list should be made of the number of ploughs, harvesting machines, or whatever it may be: if it is breeding stock, a list should be made: if it is railroad equipment, a list should be made: if it is cotton or copper or other raw materials, lists should be made. and forwarded through the proper channels, together with a statement of the security that will be offered. Then it will be up to the business organizations of the United States to call together representative people in the industries directly concerned, and see what can be done. There is good reason to believe that steps taken in this orderly manner will lead to practical results. The situation is beset with difficulties, but the people of the United States have lost enough in the last year by a shrinkage in the value of their products and by idleness in their industries, to have supplied everything that Europe has needed for the restoration of her industrial life. Moreover these losses are continuing and will continue until normal trade is re-established. This fact constitutes a reproach to organized society, and there is reason to believe that when the situation is fully comprehended a way to correct it will be found.

## Domestic Branches of The National City Bank.

The attention of the officers of The National City Bank of New York has been called to the fact that the announcement of the opening of the bank's branches in New York has created the impression in some quarters that the National Banking Laws have been amended so as to permit national banks to establish branches. This is not the case.

The National City Bank recently consolidated with the Commercial Exchange National Bank. The Commercial Exchange National Bank was originally organized as a state institution and, as such, established several branches in the City of New York. When it was converted to a national bank it was permitted under the law, to continue to operate branches established prior to that time and upon its consolidation with The National City Bank, all of its rights passed to the consolidated bank, including the right to maintain branches established before that time.

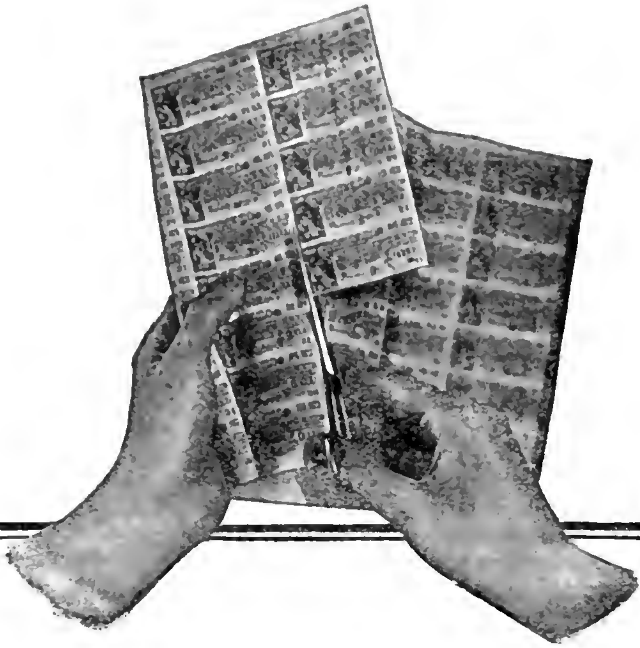
It was through this consolidation and not by reason of any change in the law, that The National City Bank was permitted to open New York City branches. Several national banks are operating branches acquired in the same way. Perhaps the most notable case of a national bank with branches is that of the "Bank of California, National Association," which has branches that date back almost to the establishment of the national banking system.

## Discount Rates.

*Rates on paper discounted for member banks approved by the Federal Reserve Board and in effect July 27, 1921.*

| Federal Reserve Banks | Paper maturing within 90 days | | | | Bankers' acceptances maturing within 3 months | Agricultural and live-stock paper maturing after 90 days, but within 6 months |
|---|---|---|---|---|---|---|
| | Secured by— | | Trade acceptances | Commercial Paper n.e.s. | | |
| | Treasury certificates of indebtedness | Liberty bonds and Victory notes | | | | |
| Boston | 5½ | 5½ | 5½ | 5½ | .. | 5½ |
| New York | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ |
| Philadelphia | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ |
| Cleveland | 6 | 6 | 6 | 6 | 6 | 6 |
| Richmond | 6 | 6 | 6 | 6 | 6 | 6 |
| Atlanta | 6 | 6 | 6 | 6 | 6 | 6 |
| Chicago | 6 | 6 | 6½ | 6½ | 6 | 6½ |
| St. Louis | 6 | 6 | 6 | 6 | 5½ | 6 |
| Minneapolis | 6 | 6 | 6½ | 6½ | 6 | 6½ |
| Kansas City | 6 | 6 | 6 | 6 | 6 | 6 |
| Dallas | 6 | 6 | 6 | 6 | 6 | 6 |
| San Francisco | 5½ | 5½ | 5½ | 5½ | 5½ | 5½ |

The system of progressive rates, based upon the amount of rediscounts for each member bank, which has been in force at the Kansas City Reserve Bank, has been discontinued.



1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, September, 1921

## General Business Conditions.

THE general situation in business has changed little, with business in August quiet. The bad earnings statements of industrial companies and numerous dividend suspensions created a pessimistic atmosphere in financial circles. The American Sugar Refining Company, with 30,000 stockholders and a steady dividend record for thirty years, found it advisable in the face of conditions in the sugar business to discontinue dividend disbursements. The balance sheet of the Central Leather Company for June 30 shows a profit and loss deficit of $6,040,896, which compares with a surplus on March 31, 1920, of $30,640,498, a shrinkage of assets in 15 months of $36,681,394. Instances like these indicate the havoc that the fall of prices has wrought among the industrial companies. The common stock of the former company has sold down from a high of 118¾ last year to under 60 last week, and the common stock of the latter from 104¾ last year to 22¼. If the farmers who think they are the only sufferers from falling prices knew the facts about the losses of manufacturing and trading companies they would be less unhappy about their own. There has been misery enough to go all around.

The weakness of the whole list of stocks, notwithstanding the relaxation of credit conditions, has been indicative of little confidence in early business revival. The bond market last month was not so buoyant as in July, but showed good strength.

Bank clearings have been running about 26 per cent below those of a year ago, which in view of the fall of prices is a remarkably good showing. Railway traffic has been helped by the big grain movement, but car-loadings are about 20 per cent below last year. The earnings are making a better showing, due to the crop movement.

### Iron and Steel

The industries are very quiet, with a few exceptions. There is said to be a little more activity in iron and steel, but the past month has seen further reductions both in wages and prices. Under the latest wage scale adopted by the United States Steel Corporation unskilled labor on the basis of a ten-hour day will receive $3 per day, which is 50 per cent above the wage paid at the beginning of 1915, but about 40 per cent below the wages paid on February 1, 1920, when laborers were receiving $5.06 for a ten-hour day. The high rate was 153 per cent above the 1915 level.

The following table shows wages of unskilled labor after each advance in wages since 1915, the percentage of each advance, and the cumulative advantage of each, together with statistics for the last three adjustments:

| | Wages 10-Hr. Day. | Per Cent. Advance. | P. C. Ad'e Over '15 Rate. |
|---|---|---|---|
| 1915 | $2.00 | ........ | ........ |
| Feb. 1, 1916 | 2.20 | 10.0 | 10.0 |
| May 1, 1916 | 2.50 | 13.6 | 25.0 |
| Dec. 15, 1916 | 2.75 | 10.0 | 37.5 |
| May 1, 1917 | 3.00 | 9.0 | 50.0 |
| Oct. 1, 1917 | 3.30 | 10.0 | 65.0 |
| Apr. 16, 1918 | 3.80 | 15.0 | 90.0 |
| Aug. 1, 1918 | 4.20 | 10.5 | 110.0 |
| Oct. 1, 1918 | 4.62 | 10.0 | 131.0 |
| Feb. 1, 1920 | 5.06 | 10.0 | 153.0 |
| May 16, 1921 | 4.05 | *20.0 | 102.5 |
| July 16, 1921 | 3.70 | †9.5 | 85.0 |
| Aug. 29, 1921 | 3.00 | *18.9 | 50.0 |

*Reduction. †Elimination of time and a half for overtime work over eight hours.

### Textile Industries Active

The textile industries as a group are an exception to the general situation. This is particularly true in cotton goods, which have blossomed out into something resembling a real boom. The explanation apparently is, that, in the first place, owing to the long curtailment of production and the cautious attitude of buyers, dealers' stocks have been low; and in the second place, the very unfavorable reports concerning the new cotton crop have convinced the trade that prices will not be lower either for raw cotton or cotton cloth. This imparted confidence and prompted buying in sufficient quantities to start prices upward. The mills are well sold up for the immediate future, and in some lines until next Spring. Foreign orders have been received in sufficient quantities to help the revival.

The woolen goods trade also is in very satisfactory condition, with prospects good for the rest of the year. The silk industry has improved very much since the first of the year, and is operating at 50 to 60 per cent of capacity, but in this connection it should be remembered that capacity has been much expanded in recent years.

### The Grain Crops

The grain crops are not quite up to last year, having suffered injury under the heat and dry weather of July. In the United States and Canada late estimates make the total yield about the same as last year, with the former country a little under and the latter a little over last year's.

Owing to the emergency customs duty of 35 cents per bushel it is probable that less Canadian wheat will come into this country than last year, but as much of the Spring wheat grown in the Minneapolis territory is of poor quality it will be necessary for the mills to bring in considerable for mixing purposes, to maintain the grade of their flour. The tariff will add to the cost of flour to that extent, and recent statements at Washington again raise the question whether this tariff really does anybody any good.

Thus Mr. J. R. Howard, President of the American Farm Bureau Federations in a statement before the Interstate Commerce Commission in behalf of a reduction of freight rates on grain, is quoted in the Washington dispatches as follows:

> J. R. Howard, president of the American Farm Bureau Federation, said that prices on grain were fixed where the surplus accumulates, usually in Liverpool, and that this price, less commission, and the cost of transporting the grain to the points where the prices are made was what the producer received. Therefore, he added, any increase or decrease in freight rates was felt directly by the farmer.

This is so much like what was said in these columns last Fall when the movement for putting a duty upon wheat was started, that we feel justified in referring to it. We said then that Kansas City, Chicago, Minneapolis, Winnipeg and other world markets moved together, affected by common influences, and that so long as this country and Canada were both exporting largely to Liverpool, prices in both countries would be approximately the same; and that if all Canadian wheat went to Liverpool it would compete with our wheat and take the place of our wheat as truly as though it came into this market. As a matter of fact all that the new tariff has done to Canadian wheat has been to cause it to move to the seaboard over Canadian railways and through Canadian ports, instead of moving in part over our railways and through our ports. It has the further effect, however, of disturbing exchange relations, and of producing irritation between this country and our friendly neighbor, who is our best trade customer. And this is the way legislation intended to control economic conditions usually works out.

### Wheat Situation

The wheat movement in this country is in marked contrast with that of last year. Five of the big railroads in Kansas moved three times as much wheat in July this year as in July last year, and receipts at all primary markets since the beginning of the new crop year have been about double those of last year.

The rapid marketing has made a heavy load for the speculative market to absorb, just at a time when the speculator has been in greater disfavor than ever, and the market for the September and later deliveries is down about 25 cents per bushel from the top. Although the future markets are not below the spot market, as they were last year, they are not enough above to yield a carrying charge.

The general situation as to wheat is good. Unlike that of last year, domestic stocks of flour are small and the millers are buying grain freely. The world situation is closely balanced, Broomhall estimating European requirements at about the same as last year. If anything should go wrong with the crops in Argentina and Australia, wheat might go considerably higher.

The corn crop is about 200,000,000 bushels under last year's, but is around 3,000,000,000 bushels, and the carry-over from last year is very large. The oat crop is poor, but there also the carry-over is large. Prices of corn and oats in Chicago are below those of any year since 1906, and with higher freight charges from the local shipping points this means still greater declines have occurred in producers' prices.

### The Cotton Crop

The situation of the cotton crop would signify disaster in normal times. The acreage was reduced about 25 per cent, and now the condition of the crop forecasts a low yield per acre. The carry-over is unusually large, and all interests in the South have been wanting a short crop, calculating that the gain in price upon the carry-over would compensate for the loss on this year's yield. The statistician of the New Orleans Cotton Exchange calculates the total carry-over of all kinds at 9,194,000 bales, but about 2,100,000 bales of this is held abroad, and much of the domestic stock is of low grade, carried over from previous years. The present talk in the trade is that the new crop will not make over 7,000,000 to 7,500,000 bales, and that when allowance is made for mill stocks and time required to get the 1922 crop upon the market, the supplies for the coming year will not equal a normal year's

consumption, although probably sufficient to meet the world's demand if this remains at the present low level throughout the year.

In curtailing the acreage in cotton the Southern farmers have increased their acreage in the grains, particularly corn, and will have a much better supply of home-grown foodstuffs for man and animals during the coming year than has been usual in the past. That this is following a sound economic policy hardly can be questioned, but it will have the effect this year of making the northern farmer pay more for his cotton goods and get less for his grain and live stock. It is another repercussion of the fact that the rest of the world is not able to buy clothing as usual.

### Live Stock

The live stock markets had a good recovery in July, but lost nearly all of it in August. An undesirable feature of the situation is the light movement of feeders and stock cattle from the central markets to the farms. There is a great amount of feed of all kinds in the Western country, and for this reason the movement of young and unfinished cattle to the slaughter pens is to be regretted. The $50,000,000 cattle fund was subscribed by bankers to take care of this situation, and is being put to this use. Already reports are coming to the effect that the market for cows and young stock is being supported and stabilized. The loosening up of the credit situation which has resulted from the large wheat movement has put many farmers in position to buy feeders, and the decline of prices for both feeders and corn puts the business of fattening cattle on a sounder basis than it has been for several years.

### Demand for Money

The demand for new money is light. While the boom was on and the tendency of prices was upward, money was in constantly increasing demand, for no matter what profits borrowers made nobody wanted to use any of them for so uninteresting a purpose as paying debts. That situation has changed. While the low prices are making money tight, the demand is for the purpose of paying old debts. The people now have their minds fixed on getting out of debt.

### The Interior More Cheerful

Notwithstanding the many discouraging factors in the situation, reports from over the country indicate that pessimism is less intense than earlier in the year. The crop has been made upon very low expenditures. The farmer has gone resolutely at the task of reducing production costs, and in so doing has set an example to all the industries. In the wheat country an important amount of debt-reduction is going on, and throughout all the agricultural sections the body of indebtedness will be reduced this Fall. People begin to feel better as they see their debts go down, but they will not feel that conditions are right, nor be in position to resume normal buying, until the prices and wages which they have to pay have come down to correspond with the prices of their own products. And for this nobody can blame them.

### What Is Elasticity?

At a "Southern Merchants' Retail Conference" held in Richmond on August 17, the presiding officer is quoted as declaring that the Federal Reserve system "had no more elasticity than a section of a railroad track." The gentleman apparently overlooked the fact that the total bills discounted of the twelve reserve banks increased from approximately $100,000,000 in the first week of April, 1917, when the United States entered the war to $2,171,760,000 on November 8, 1918, the date of the statement nearest to the Armistice, and then increased to $3,126,594,000 on November 5, 1920. Nor does he take account of the fact that the reserve bank of the Richmond district is now borrowing an important sum of the reserve bank of the New York district to supplement the former's own resources. Evidently this gentleman's idea of elasticity is simply an endless capacity to stretch.

## Unemployment and Wages.

It is a deplorable fact that a great amount of unemployment exists at this time in the United States, and it is evident that the loss of wages is not only a serious matter to the individuals deprived of their incomes, and the families dependent upon them, but constitutes a loss of purchasing power which is an important factor in the general depression.

The monthly estimates by United States Employment Service of the Department of Labor have indicated an increasing number of people out of work throughout this year. The estimate for August 1 indicates a decline in the number of employed as compared with the same date last year of 5,700,000. This does not allow for the number who have found employment in industries not reporting, which undoubtedly is considerable, or does it include the persons who are working only part time.

The following calculation shows the number of workers employed in certain leading industries in June, 1921, with the number employed in identical establishments in June, 1920, and also comparing the pay roll totals for the two months. In both cases the figure 100 represents the June, 1920, basis:

| | Workers Employed June, '21 | Amount of Payroll June, '21 |
|---|---|---|
| Iron and Steel | —39.6 | —65.0 |
| Automobiles | —37.5 | —39.7 |
| Car Building and Repairing | —41.6 | —38.4 |
| Cotton Manufacturing | — 0.4 | —26.2 |
| Cotton Finishing | — 0.6 | —18.6 |
| Hosiery and Underwear | —20.8 | —38.2 |
| Woolen | + 3.9 | + 8.3 |
| Silk | — 6.5 | —13.4 |
| Men's Clothing | —12.8 | —21.5 |
| Leather | —28.2 | —40.6 |
| Boots and Shoes | —13.1 | —18.7 |
| Paper Making | —34.6 | —47.7 |
| Cigar Manufacturing | — 0.6 | —14.0 |
| Coal (bituminous) | — 4.8 | —21.6 |

The Industrial Commission of the State of Wisconsin in Bulletin No. 10 presents the results of a canvass of 211 establishments in that state, employing at this time 56,000 workers, or about one-third of the present number of factory employes in the State. It finds that the decline in number of workers since July, 1920, is 37.1 per cent and that the total reduction in pay rolls, including that due to wage-cuts as well as unemployment, is 48.4 per cent. Average weekly earnings for those employed were about 23 per cent below the peak, which was reached in August, 1920, and about the same as in the first quarter of 1919. The Commission calculates that the cost of living had declined 21 per cent July 1, 1920, and is now about the same as it was in the closing months of 1918.

The report of the New York State Industrial Commission on conditions in this state in June shows a decline of 28 per cent in employment since the peak, March, 1920, and an average decline of 11 per cent in earnings of persons employed.

### The Relation of Wages to Prosperity

The foregoing statements furnish evidence enough that the present state of unemployment is a matter of very grave public concern, and that up to this time it has been growing worse rather than better. The longer people are out of work the more serious the situation naturally becomes. As they draw upon their savings and exhaust their credit, their purchases are reduced, with the result that consumption continues to decline, throwing more people out of employment and intensifying the depression. The unfavorable effects are cumulative until a stage is reached where the demand for goods and labor begins to increase, and from there on the favorable influences are cumulative until a general state of employment and prosperity is reached. Everybody is losing money while business is on the down grade. The earnings of capital as well as of labor fall off, and many investments are lost or put in jeopardy. There is a common interest in knowing the conditions that must be reached before improvement may begin.

Labor leaders are laying emphasis upon the importance of keeping up wages as a means of maintaining consumption, and their argument is based in part upon sound principles. It is true that the ability of each individual to buy depends upon what he receives for his own services. That is a point of agreement from which all may start in an inquiry into the situation.

The whole industrial organization is essentially co-operative. It does not sell outside of itself; it effects an exchange of services, and anything that suddenly changes the basis upon which the exchanges are made interferes with them and slows down industry.

### The Farmer as a Factor in the Nation's Prosperity

The plea of the labor leaders against a reduction of wages would be sound if wages were being reduced below the level of prices ruling for the products of labor, or below the general compensation of the great body of workers outside of their own organizations.

The trouble at the present time is that what the labor leaders are protesting against has already happened to more than one-half the workers of this country. These leaders are trying to maintain the pay of a minority, at the expense of the majority.

The farmers and producers of practically all primary products and raw materials have taken reductions of approximately one-half the value of their products. The prices of their products are back to the pre-war level. They have lost a great proportion of the purchasing power they have been using in recent years, and the market for the services of all the workers who have been supplying them has been curtailed accordingly. This is the fundamental cause of the unemployment which has spread over this country in the last year, since cotton, corn, oats, live stock, rice, wool, hides, dairy products, flax seed, the principal metals and other primary products began to fall. It is true that as factory-workers and others were thus forced out of employment the evil effects have been increased, but the original impulse and the main influence comes from this great body of people who extract wealth directly from nature and who are largely dependent upon world markets.

Moreover there is no prospect of a recovery of farm products to the levels of war time. Doubtless they are now unduly depressed and will swing back to a normal level with improvement in general conditions, but any expectation that they will recover to the war level, or to the present general level of wages and manufactured goods, is wholly unwarranted. The sooner war-time prices and wages are forgotten the better. They are not normal in times of peace.

### The Equilibrium in Industry

Moreover, the essential thing is not the general level of all wages and prices, but right relations between wages and prices, and between the different groups of producers, so that they can trade with each other. The farmers have nothing but the products of their labor and of the soil with which to buy the products of the other industries. They will give their products as far as they will go, but there their buying ends. Whatever affects any great group of consumers and throws industry out of balance, so that the normal exchanges are disturbed, and normal consumption is curtailed, is bound to affect trade, industry, transportation, banking and every kind of business unfavorably. Nobody gains by it; everybody loses by it.

The labor leaders overlook another fact, which is that the aggregate of wage-payments has been reduced already, and the loss in consuming power on the side of the wage-earners which they wish to avoid has already taken place. The problem now is to equalize it, and find compensation for it in lower prices for what the wage-earners consume.

The wage-earners as a class are interested in the restoration of the normal state of balance, in which all of them can be steadily employed. It is not to their advantage to have wage rates so high that large numbers of workers cannot have employment, or can have it only part of the time. It is unfair and oppressive to the consumers who are obliged to curtail their purchases, and without benefits to the wage-earners as a whole. It is not even beneficial to those who are so fortunate as to have employment, for it keeps the cost of living to them above the natural level. It is an artificial situation which cannot be permanently maintained.

### The Public the Real Employer

There are several misconceptions of the wage question which appear persistently in everyday discussion. One is the common assumption that wages are an issue between employers and employees, with nobody else involved. Of course the public is the real paymaster, and in the last analysis the public is composed chiefly of the wage-earners themselves. Whatever they do to the public they do to themselves. The employer is simply an intermediary who plays a useful part by organizing industry and undertaking to pay a fixed wage, but unless he gets full reimbursement from the public he is soon out of business.

Another common mistake is that which lays all emphasis upon money wages. The value of money is in what it will buy. The standard of living is not fixed in the wage scale; it consists of a certain standard of comfort, certain supplies of consumable goods. The real compensation of the worker for his own labor comes in the products and services of others.

While prices were advancing the labor leaders were quick to claim that money was nothing but a medium of exchange and did not represent their real compensation. They insisted upon wage increases to compensate for loss of purchasing power, and got them.

Now the situation is reversed. The farmer is in the same situation that they were then. His purchasing power has fallen off, and his standard of living has been lowered. The labor leaders are not fighting to defend their own standard of living, but to raise it permanently at the expense of the farmer. That may not be their deliberate intention, but it is the effect of what they are trying to do. Moreover, the full effect is not beneficial even to the wage earners, for it disrupts the exchanges and paralyzes industry.

### Wages As a Factor in Prices

It is a common saying that wages should not come down until the cost of living comes down—that wages should follow rather than lead in the decline. This is correct to the extent that wages are not themselves the cause of the high prices. But it is important to bear in mind that the "cost of living" is not a thing by itself. It consists of the compensation of all the people who do anything for us. One man's wage is another man's cost of living. The two things cannot be discussed separately.

One of the recent attempts to lower wages was by the meat packing companies, who are operating under an arbitration agreement with their employees. The companies recently asked a reduction of 5 cents per hour, and the Arbitrator, Judge Alschuler, after reviewing the situation, rendered an adverse decision. His opinion describes conditions that are illustrative of the general industrial situation.

### Wages in the Packing Industry

In 1914 the common labor rate in the packing houses was 17½ cents per hour, with a 10 hour day. By the last of 1917 the rate had been advanced by the companies to 27½ cents. Early in 1918 the industry, in the important centers, passed under government supervision, and wage rates since have been fixed by the Arbitrator. In March, 1918, common labor was advanced to 32 cents, with a higher rate for overtime after 8 hours per day. Other increases raised the basic rate to 55½ cents at the peak in 1920, from which it had been lowered to 45 cents, where it now stands.

The Arbitrator held that the reductions previously made amounted to 19 per cent, and that the cost of living to the packing house employees forbade a further reduction at this time. We quote briefly from the opinion, as follows:

So far as the cost of living is a factor, while there has undoubtedly been considerable recession since last December, I am not convinced that, as applied to the large majority of such employees, it has fallen as much as the employers contend. We know that in some very important respects it has not declined at all. If these employees have taxes to pay on any property they may possess, they have found them constantly mounting, with reasonable certainty of still higher rates. Most of them must use the street cars, and fares remain stationary at 60% above what they were. Gas and electricity also remain at the highest price. Fuel, which all must have, is not apparently lowered to these small consumers, while ice has become almost prohibitive in price. Newspapers, a most general necessity, remain at the highest point, from 100% to 200% above 1914 prices. Rents, which have not yet receded from the high mark of 1920, but have in instances even mounted, show no sign of abatement. Telephone and telegraph service remain at uppermost level, likewise freight rates and passenger fares; and while these may not directly enter into the living cost of the average packing house employee, they surely have their influence indirectly. True, there have been notable reductions in some prices—sugar, vegetables, some canned goods and cereals; and coffee, butter, eggs, flour and many other articles of food have been more or less reduced, but such very essential articles, as milk, bread and bakery stuffs, fruits and meats have not undergone very great reduction to the small consumer.

Wearing apparel has decreased quite materially, although many of the widely advertised reductions leave the public under the false impression that they are typical of the things which these people must buy.

An examination of the items specified by the Arbitrator will show that the principal factor in them is labor. In other words, while wages in the packing industry are 160 per cent higher than before the war, at the expense of producers and consumers, the cost of living to the packing-house employes is being held up by high wages elsewhere.

The Arbitrator's decision takes no account of the plight of fully one-half the people of the country, who have already been reduced to practically pre-war incomes, or of the millions of wage-earners out of employment. It contemplates no relief for the situation. On the contrary, the policy which it proposes, if generally adopted, will be an insuperable barrier to recovery. It is a stand-pat policy applied to a situation that cannot stand still.

### Wages a Universal Factor

It is probable that the margins of middlemen have not in all cases been readjusted to suit present conditions. Where this is true the middlemen share the responsibility for the continuance of present conditions, but to a great extent middlemen's costs are kept up by the same general cause that is sustaining industrial costs—wages that are too high for present conditions. High rents are a reflection of high building costs, which are due to high wages in the building trades, and building material industries, high transportation costs, etc., etc.

The Arbitrator refers to railroad charges, which he says surely have an influence upon living costs. Undoubtedly they do. Railroad charges enter into everything. The iron and steel industry has made wage reductions considerably greater than those made in the packing industry, and the average reduction in iron and steel products is approximately 40 per cent. Mr. Grace, President of the Bethlehem Steel Company, has made a statement explaining that if allowance is made for the increase in costs due to railroad charges, steel products are now lower than before the war. In announcing new and lower prices for steel products, going into effect on July 5th, last, Mr. Grace said:

The increase in freight rates has been the largest factor in increasing the cost of manufacturing steel products because the making of a ton of finished steel involves the transportation of more than 5 tons of raw materials. The cost factors next in importance are materials and labor.

Taking as an example the price for structural shapes, under the new schedule of prices, 2 cents a pound or $44.80 a gross ton, the comparison with pre-war prices, reflecting concretely the three more important cost factors is as follows:

1st: The increase over pre-war cost in transportation on ore, coal, limestone, scrap and miscellaneous supplies amounts to $7.85 per ton of finished steel.

2nd: The increase in the cost of coal, ore, limestone, alloys, refractories, lubricants and miscellaneous supplies at point of shipment amounts to $7.10 per ton of finished steel.

3rd: The increase in the cost of labor under the present wage scale, as compared with pre-war wages in the steel plant proper, is 5.64 per ton of finished steel.

These items account for an increase in present day costs over pre-war costs of $20.59 per ton of finished product. The new price of $44.80 for structural steel is equivalent to a pre-war price of $24.21 per ton, or 1.08c per pound.

Statistics covering the last twenty years show that in only one month (December, 1914) has structural been sold as low as this figure (1.08c). The ten-year pre-war average (1904-1913) was 1.51c per pound.

The figures I have used are the result of actual compilation made by the Company's comptroller in the every day conduct of the business.

Iron and steel products enter into farm implements, railroad costs, and the costs of every line of industry.

### The Railroad Wage Situation

Railroad charges are commonly regarded as more important than any other single factor in the present situation,—the general wage-level excepted—and wages make the railroad situation what it is. The question of railroad rates is a question of wages. It has been wages, expended in one way or another, either directly to their own employes or indirectly in payments for coal, equipment and supplies, that has put up railroad rates to where they are. In fact, but for the enormous investments of capital in the last twenty years, for the purpose of reducing operating costs, rates would have to be much higher than they are.

Owing to the prevailing business depression 25 to 30 per cent of the regular force of railroad employes is laid off, getting no pay at all. This means that if they could all be at work at a corresponding reduction from the present

wage scales, the sum distributed as railroad wages would be the same as now, and it would be more equitably distributed than it is now. Moreover, a reduction of such proportions in wage rates probably would permit of an even greater reduction in freight rates, particularly if it was accompanied by corresponding reductions throughout all the industries, because the stimulus given to business would increase the volume of railroad traffic. Railroad rates are under public supervision and there is every reason to believe that they would be made to conform to increased earnings.

Finally, such a general reduction of industrial costs would reduce the "cost of living" not only to railroad employes but to wage-earners, farmers and everybody, increase the purchasing power of the entire population, enlarge the consumption of all products, and improve the whole situation.

**Railroad Wages**

The Railway Age recently made a calculation showing that since the reduction of 12 per cent as of July 1, 1921, the average cost per hour of railway labor is 123 per cent higher than it was in 1916, 90 per cent of the employes being paid by the hour. In the elaborate statistical tables presented to the Senate Committee by Mr. Kruttschnitt in March, it appears that the labor bill of the carrier in 1916, before the Adamson law took effect, was in round figures, $1,468,500,000. Increases since 1912, excluding switching and terminal companies, have been as follows:

| | |
|---|---|
| 1917 | $270,900,000 |
| 1918 | 874,300,000 |
| 1919 | 229,300,000 |
| 1920 | 855,000,000 |
| Aggregate increases since 1916 | $2,229,600,000 |

The figures given are actual. The increase made in 1920, however, was in force only a part of that year. Mr. Kruttschnitt in commenting, says, "This means that the labor costs to the carriers in Class 1 were actually greater in 1920 than in 1917 by more than 115 per cent, and that if the increased scale had been in effect during the entire year 1920, the increase would have been about 128 per cent." If comparison is made with the figures of 1916 the increase is 151 per cent.

**A Strike Vote**

The Brotherhoods have not yet decided whether they will accept the 12 per cent reduction. The heads of the orders at a conference with the railroad presidents asked for a pledge that no further wage-reductions would be sought, and the presidents very properly replied that with regard to the public interest they could not make such a promise. Ballots are being sent out to the membership for a vote on whether to accept the decision of the Labor Board which went into effect July 1st, or strike.

**Where Does the Remedy Lie?**

Meanwhile committees representing farmers, stock-growers and other shippers are in Washington, pleading with the Interstate Commerce Commission to reduce railroad charges, to save the industries. The Secretary of the Federation of Farm Bureaus for Iowa is reported as arguing to the Commission that railroad rates should be reduced to relieve agriculture, because agriculture is a basic industry. Nobody can deny the importance of agriculture, but if agriculture cannot live without railroad facilities there is something to be said in behalf of the railroads as a basic industry.

It would seem to be the proper policy to divide the delegations going to Washington, and send one-half of them to Chicago to make representations to the Railroad Labor Board, or perhaps to Cleveland, to present the facts directly to the Brotherhood authorities, who have been represented as desiring to co-operate with the farmers.

**Labor's Share of the Product**

Much of the trouble which is now being experienced over wage adjustments results from the reckless methods which prevailed in governmental expenditures during the war. Governmental expenditures dominated the industrial situation, and they were met in the main by the use of credit. There was no pretense in governmental finance of making ends meet, but private business cannot be carried on in that way.

The present trouble results in part also from the vague talk that was common in war time, and is common now, to the effect that a radical change was taking place in industrial relations and that the wage-earning class in the future would have a much larger share of the industrial product than in the past.

**Distribution Dependent on Production**

This declaration doubtless has represented a kindly wish or hope that the position of the wage-earning class would be improved, but those who utter it seldom have any definite idea about how the wish may be realized. They expect somebody else to realize it. The fact is that the distribution of current production takes place according to natural economic laws, and those laws are the same now as they were before the war. The production and distribution of wealth are not unchangeable; they are changing continually, but in accordance with economic law. In Russia an attempt has been made to increase the distribution of wealth without regard to economic law, or the facts of human nature, with the result that industry has been paralyzed, production

has come almost to a standstill, and the nation has been reduced to beggary.

The fallacies that are responsible for the tragedy in Russia permeate all of the theories which propose to improve the condition of the masses by a mere redistribution of the present industrial product. The fundamental fallacy in all of them is that of laying the emphasis upon distribution instead of upon production.

#### The Value of Leadership

Another error is in enormously exaggerating what might be done for the masses by seizing the incomes of the rich. In the first place the masses now get so large a share of all that is produced that if it was possible for them to get all the rest it would make no great change in their condition; and in the second place every attempt to seize the rest by arbitrary methods causes it to disappear, as it has in Russia. The fallacy is in thinking that the leaders and managers of industry and business are not worth as much as they get, whereas every experiment in getting along without them shows that they are worth a great deal more than they get. Everything goes to pieces without them. This does not, of course, mean that the individuals now holding positions of leadership and management are all indispensable. If they should all pass away, others would be found to take their places, but there must be leadership and recognition of ability and reward for initiative and service. or society goes to pieces. Even the labor organizations find it necessary to have leaders, and pay them salaries much in excess of the average earnings of the members.

#### Division of the Industrial Product

Professor David Friday, who teaches political economy in the University of Michigan, has made a study of corporate incomes in the United States during the war period, when profits are supposed to have been larger than ever before.* He found that 1917 was the year of largest profits, and that the combined earnings or proceeds of the manufacturing, mining, railroad, and public utility industries in that year were divided as follows:

| | | Per cent |
|---|---|---|
| Wages and salaries | $11,100,000,000 | 54.3 |
| Taxes | 2,360,000,000 | 11.5 |
| Interest | 1,180,000,000 | 5.8 |
| Dividends | 3,070,000,000 | 15.1 |
| Surplus | 2,731,000,000 | 13.4 |
| Total | $20,441,000,000 | 100 |

The total paid in interest and dividends was 20.8 per cent of the values created. That is what went as compensation to the people who provided the capital employed in these industries. It did not all go to rich people. The interest payments went for borrowed money, and many of the securities of these corporations are owned by savings banks, insurance companies, employes and small investors. The "surplus" is not personal income, but a part of the earnings retained in the business. It may never be drawn out; it may be lost, as in the case of the Central Leather Company mentioned on page 1, but while it exists as surplus it is being used to enlarge the business, increase the product and afford employment to more labor. As long as it is so employed it is a common fund, rendering service to the employes and the public as well as to the owners. The figures for "surplus" increased while prices were rising and diminished when prices began to fall.

Taxes for the most part go to cover expenditure for personal services, either in salaries or wages.

Numerous calculations upon the distribution of national income have been made by recognized authorities, and all show results varying but little from Professor Friday's. They afford data upon which an approximate estimate may be made of how much wages may be possibly increased out of the current industrial product.

It should be considered that not all of the 20.8 per cent which goes to interest and dividends is retained by the recipients for their personal use, as a part of it is re-invested for the development of industry. In fact all that the owners receive above their living expenses is returned to industry and disbursed in some form to labor. The investment fund, from which our railroads have been built and upon which our industrial progress depends, is made up jointly from savings out of this 20.8 per cent and savings from personal earnings. In whatever proportion the investment fund represents personal savings the owners of those savings share in the 20.8 per cent.

After making allowance for that proportion of the 20.8 per cent which is a return upon personal savings, and that portion of the remainder which is returned to industry for the common service, how much of capital's remaining share can labor reasonably expect to get, and how much of a disturbance in industry can it afford to make in order to get it?

#### The Standard of Living

All talk about the "standard of living," or "living wage," which looks merely to an advance of money-wages is meaningless. Efforts along that line are fruitless. They travel in a circle, each wage advance raising the cost of living. It is impossible to divide any more than is produced. You cannot with 500,000,000 bushels of wheat give 100,000,000 people six bushels each. It is well to have an ideal stand-

*See "Profits, Wages and Prices," Harcourt, Brace & Howe, publishers, New York, page 117.

ard of living to work for, but it is not something that can be picked out of the sky; it can be realized only as the industrial capacity of the country rises to it.

The great lesson of the present situation is that there is a certain fair and proper adjustment of relations between the people employed in all of the various occupations. It is a natural adjustment, made by the people themselves in selecting the work they shall do, taking account of their abilities, inclinations and all the conditions surrounding employment. When such natural and just relationship is disturbed, the industrial organization slows down until whatever is wrong is made right. It is like an automatic loom which weaves cloth without a tender until something goes wrong, and then stops and will do no more until that something is fixed.

### Public Construction

The demand for great expenditures upon public works to give employment to labor at present wages is fundamentally wrong, and so is every artificial scheme to provide work at inflated costs. It is an attempt to evade and defeat the economic law. It assumes that society can lift itself by its bootstraps.

The cost of public construction would have to be defrayed by bond issues, which would mean more tax-exempt securities, more competition with bonds now outstanding and lower prices for them. It would mean heavier burdens for the tax-payers, and further depletion of the capital supplies from which the real revival of industry must come. Every such increase in the burdens upon industry, every move that wastes capital in uneconomic expedients, delays recovery.

The people who advocate such policies think they are dealing with a temporary situation, but this is not a temporary situation. Industry will not be self-supporting again until it is brought back into balance, so that the products of the workers in the various lines will be naturally exchanged and absorbed. When one-half of the population has had its compensation cut one-half it cannot afford to pay taxes to keep the other half employed at war wages.

### The Situation Waits

It is not difficult to see what is the matter with industry in the United States and over the world. The situation is practically the same everywhere. The demoralization and poverty of Europe, resulting from the war, is of course a factor in it, but the chief cause even in Europe is not the losses of the war, but the unbalanced state of industry as between the producers of primary products on the one hand and the producers of manufactured products and the groups engaged in trading and transportation on the other hand.

It is a rather familiar comment, and not a profound one, that there must be something wrong with the existing order of society. Evidently there is. Briefly stated, in a society that is essentially co-operative, people are refusing to co-operate. We have developed a highly specialized, interdependent, but voluntary system of industry, so complicated that many people do not understand their own responsibilities in it.

There seems to be nothing to do but allow the economic forces to work things out in their own relentless way. The workers in each industry have the privilege of saying that they will not come down until everybody else does, and perhaps not then. Nobody has authority to say who shall come down first, or that anybody shall come down. They will have to settle it among themselves.

Meanwhile, however, millions of men are idle and millions of wages are being lost. It is a pity the agony must be so long-drawn out, a pity the inevitable adjustments cannot be quickly made, with intelligent comprehension and a co-operative spirit. A machine cannot be started unless all its parts are in right relation to each other; a factory cannot be operated effectively unless all the departments are in balance with each other; and it is the same with the industrial organization of the country and the world.

### The Way of Real Progress

The way of real progress is not by the efforts of each group or class to get the better of others by methods which embarrass and curtail the production of wealth, but by intelligent efforts to increase production. All of the progress of the past has been accomplished in this manner. The greatest factor has been the new investments of capital, providing machinery to take the place of hand labor. Every new device which makes labor more efficient, sets labor free to do something else that will contribute to the general welfare. It is by this method alone that the standard of living is raised.

The Federated Engineering Societies, which was organized in November, 1920, with Herbert Hoover as its first President, at his suggestion appointed a committee of engineers to make a study of industrial wastes, with a view to suggesting improvements in methods. The Committee has completed the first studies undertaken, and the report is exceedingly interesting in what it reveals. The Committee says that it "has established no theoretical standard of performance," but that in its investigations "industrial waste has been thought of as that part of the material, time and human effort expended in production represented by the difference betwen the average attainments on one hand and performance ac-

tually attained on the other as revealed by detailed reports."

The findings so far as investigations were carried indicate that without any new inventions or discoveries, but simply by bringing all performance up to the level of the most approved practice, and by increased co-ordination and co-operation, the efficiency of the industries might be approximately doubled. Evidently such results could not be accomplished suddenly, but the report ought to give a great stimulus to efforts for improvement, and the purpose is one upon which employers and wage-earners may advantageously work together.

### Embarrassing Industry

The other side of the situation is illustrated by the stories of wasteful expenditures which the railroads have been compelled to make by the unreasonable rules adopted for the regulation of operations under government management. They are illustrated also by the following extract from the findings of the Industrial Court of Kansas, which has been investigating the coal industry in that State:

> A perfectly organized group of inefficient workmen with no expert qualifications in the main have gradually, year by year, assumed complete control of the production of coal in the Kansas field, both by procuring the passage of favorable and meaningless laws and by ironclad contracts with their employers whereby they now draw excessive wages for their labor and practically dictate every detail of the operation of the coal mines.
>
> The mine owners, rather than meet the issues when they appear in detail, have successively acquiesced until they are powerless to resist without a present cessation of operation and consequent loss, so that the operators passed this on to their selling mine producer's profit and pass it on to the retailer, who simply adds his margin and passes the sole burden to the public.

The situation in the Kansas coal mines is not to be taken as true of all industry, but it is the situation that naturally develops where the labor organizations are under leadership which is chiefly interested in cultivating antagonism to employers. This is not to say that employers are never at fault. The report of the Engineering Committee says that the larger part of the wastes of industry are up to management for correction. The wastes of management, however, are seldom intentional. They are often caused by ignorance of the best methods, and largely result from lack of capital. Employers are largely graduated from the ranks of workmen and frequently get into business with inadequate capital.

Our very system of individual liberty results in many individuals getting into positions as proprietors and managers which they are not well qualified to hold. Of course there is incidental waste in all this, but it is preferable to any system of supervision that would close the door of opportunity to any but a selected class. The best test of qualifications for management is the test applied by open competition.

## The Railroad Funding Plan.

It is difficult to understand the opposition which has developed to President Harding's plan for funding the indebtedness which the railroads owe to the Government on capital account. The plan is one of simple justice to the railway companies and its execution would unquestionably have far-reaching beneficial effects, releasing frozen credits, stimulating railroad purchasing and increasing employment.

There seems to be so much misunderstanding of the rather complicated financial relations of the railroads to the Government, that an analogy of the situation may be illustrative. Let us assume that the Government found it necessary, for war purposes, to seize and occupy a certain building valued at, say, $189,000, (which sum if multiplied by 100,000 is the value of the railroad property involved in this question). In taking possession, the new tenant wrote the lease largely to suit himself and undertook to pay as rental the average net revenue which the property yielded during the preceding three years—about $9,000 a year. The lessee also agreed to pay some of the taxes and to return the property in as good repair as when it was taken over. Another and rather extrordinary stipulation was that the lessee might alter the building as he saw fit, make such additions and betterments as, in his uncontrolled discretion, seemed necessary, for which he was to be ultimately reimbursed by the owner. It was recognized, however, that it might be a great hardship to the owner to have such additions and betterments taken out of the rentals, and provision was made in the contract that reimbursement might be in the form of obligations running for ten years. This arrangement would enable the owner to receive the rental regularly in cash, and give him time to pay for the permanent improvements on the property.

### The Situation at Settlement Time

At the termination of the lease it appeared that the tenant had spent over $11,000 on the property, of which something more than $3,500 was for new equipment and $7,500 for other additions and betterments. On the other hand, the rents had not been paid in full, over $6,000 remaining due. The lessee then proposed to take serial notes from the owners for the cost of the new equipment but insisted that the $6,000 of overdue rent shall be applied to extinguish in part the remaining $7,500 debt. The owners protested that they must have cash—they had numerous bills to meet and could not raise the necessary money at the moment, largely because during the occupancy of the tenant the earning power of

their property had been impaired. They asked that the time of paying for the additions and betterments placed on their property be postponed.

If the sums stated be multiplied in each instance by 100,000 the above statement practically will parallel the terms of the arrangement by which the Government took over the railroads and the present situation.

#### The Question of Deferred Payments

As settlements are effected with each company the question of what to do about these investment obligations presses for disposition. Under the railroad act as passed by Congress the Administration is authorized to accept ten-year bonds in reimbursement for capital expenditures, but if this is done the Administration will have to pay all of the rentals forthwith in cash, and that would require an appropriation by the Congress, which it shows no disposition to grant.

In this situation a plan was devised of having the War Finance Corporation, by means of its capital and the power to sell its notes on the market, buy the securities taken by the railroad administration in the settlements, and sell them gradually in the market as the market will absorb them. This would avoid appropriations from the Treasury but give a temporary loan of public credit to assist the railroads in paying for their obligations on capital account. This plan has been approved by the government railroad administration and by President Harding, and a bill to put it into effect has passed the House but so far has been held up in the Senate. In no sense does the plan contemplate any bonus to the carriers, but grants temporary assistance to them in making payment for permanent investments made upon the properties by the Government during the Government administration.

#### The Amounts Involved

The value of the railroads, as tentatively certified by the Interstate Commerce Commission, is $18,900,000,000. The rental during Federal control was about $900,000,000 per annum. The Government expended for additions and betterments $763,000,000, and for new equipment $381,000,000, or a total of $1,144,000,000. Of this amount, $393,000,000 has already been funded, and $55,000,000 has been paid by certain railroads in final settlement, thus leaving $696,000,000 still due the Government. Against this, the Government owes the railroads $625,000,000, which amount would presumably be paid to them in cash if the Administration's plan of funding the above net indebtedness of $696,000,000 is adopted. The principal item of indebtedness on the part of the Government to the railroads is $460,000,000 of unpaid compensation.

#### The Question of Under-Maintenance

A pledge was made to the railroads in the Federal Control Act that their properties would be returned in substantially as good repair as when they were taken over. A disagreement developed over whether the standard of maintenance was to be money expenditures, with a certain allowance for higher prices, or physical condition. The railroads interpret the contract that like physical reparation should be made regardless of cost—tie for tie and rail for rail. It is a fact that during the Federal control period the Government placed less ties in the track by over 30,000,000. Similarly, it used 500,000 tons less rail and 2,000,000 cubic yards less ballast.

In contending for their view of the case the representatives of the companies were indiscreet enough to attribute the under-maintenance in part to the "inefficiency of labor," and this at once became an issue. The plan embodied in the pending bill, as approved by the Administration, requires the companies to abandon their claims for under-maintenance so far as they may be based upon the "inefficiency of labor." As these claims are said to run as high as $800,000,000, it will be seen that the compromise involves important sacrifices on the part of the roads.

#### The Equity of the Case

The present Director General, Mr. J. C. Davis, in his memorandum to the President, urges the adoption of the Funding Plan. In respect to the creation of a debt by the Government of over a billion dollars, he writes: "To create an indebtedness to be paid by others without limit in amount is, it must be admitted, a most unusual power and was only justified by the exigencies of the war."

Had the carriers been in possession of their properties when these improvements were needed they undoubtedly would have financed them by selling securities, or the improvements would not have been made. The development of the railroad system has been commonly financed by the sale of new securities. The net earnings of the railroads never have been large enough to provide any considerable part of the new capital required for extensions and improvements. The average surplus earnings of the railroads of the country, after paying interest charges and customary dividends, have been less than $250,000,000 per annum, which makes it unreasonable to expect them to pay for additions and betterments of from half a billion to a billion dollars a year, out of current income, whether under Federal control or private management. At the present time they have not even their ordinary ability to do it, as on the average they are not earning their dividends.

THE NATIONAL CITY BANK OF NEW YORK

1921

**Economic Conditions**
**Governmental Finance**
**United States Securities**

New York, October, 1921

## General Business Conditions.

THERE are signs of improvement in the business situation, and while for the most part they relate to seasonal conditions, some of the changes are indicative of a gradual restoration of the industrial equilibrium which is necessary to permanent prosperity. The shoe industry and the cotton and woolen goods industries are now generally active. After nearly a year of light business retail stocks were worked down to a state which made it necessary for dealers to buy for their current trade. Raw cotton has advanced in a little over a month from about 11 cents per pound to about 20 cents, and this has put strength into the goods market and encouraged buying. Cotton goods, however, have not advanced to correspond with raw cotton, and although the mills having stocks of 11 and 12 cent raw material on hand are able to work them up and sell the goods, the pinch will come when they have to buy cotton at the new quotations and advance the price of goods accordingly. There are serious misgivings in the trade about the maintenance of the present activity when that time comes. High grade wool is reported firm and a little higher in both foreign and domestic markets. Retail merchants are vigorously opposing advances in all textiles and insisting that lower prices are necessary to create a good volume of trade. The situation is unsettled, with opinion spreading that costs must be reduced both in the manufacture of cloth and in the garment trades.

In many lines there is a stir of increased activity, attributable to fall trade. Crop moving is not, however, affording the normal stimulus, owing in part to the low prices of farm products and in part to the fact that the proceeds are going largely to pay old debts. However, there is a more cheerful feeling as debts are paid or reduced. There is not enough business to go around, which makes competition sharp, with profits at the minimum. Building operations are somewhat enlarged. The iron and steel industry has more to do, and there have been advances in some lines, but declines in others. For the week of September 15, The Iron Trade Review composite market average of 14 different products was $35.56, which compares with $35.35 for the week preceding, and $35.53, two weeks previously, with an average of $35.99 for August, $68.86 for September, 1920, and $25.55 for September, 1913. Cement prices have been reduced. Wage reductions continue to be made, and are gradually readjusting the situation to a state where increased employment will come naturally and on a permanent basis.

The consumption of cotton during August was the greatest in any month since August, 1920, reflecting an increased demand for cotton goods. Woolen mills are reported to have sufficient orders on their books to insure full time operations until next Spring. The production of silk goods, for which there is no available index for the United States as a whole, has continued to decline somewhat. Mills in this district were operating at about 30 per cent of capacity in September as compared with 40 per cent in August and nearly 60 per cent in the Spring.

The following table gives the available figures for monthly production as percentages of normal production. Allowance has been made for the normal increase in production from year to year and the normal seasonal variation from month to month.

(Normal production = 100)

| | Average Jan.-March | July | August |
|---|---|---|---|
| Anthracite coal mined | 102 | 94 | 92 |
| Bituminous coal mined | 64 | 61 | 63 |
| Pig iron production | 58 | 26 | 28 |
| Steel ingot production | 58 | 26 | 36 |
| Zinc production | 52 | 40 | 38 |
| Lead production | 66 | 63 | .... |
| Tin deliveries | 31 | 30 | 64 |
| Copper production | 67 | 13 | 16 |
| Gasoline production | 103 | 84 | .... |
| Cement production | 79 | 89 | 89 |
| Cotton consumption | 62 | 64 | 75 |
| Wool consumption | 70 | 97r | 96p |
| Wheat flour milled | 89 | 148 | 174 |
| Sugar meltings | 85 | 84 | 106 |
| Meat slaughtered | 90 | 88 | 113 |

p—Preliminary
r—Revised

### The Cotton Crop

We have pointed out from month to month that the restoration of normal industrial and trade conditions waits on the restoration of normal relations between the products of the farm and other primary products on the one hand, and manufactured goods and transportation charges on the other hand.

The rise of cotton to about 20 cents per pound has had a revivifying effect upon the South. The following extract from a letter from a valued correspondent bank in South Carolina, illustrates the general character of reports from the cotton belt:

> The recent advances in cotton have had a very beneficial effect in this section; the farmers, who are all holding a part of last year's crop are feeling more optimistic and if they can realize 20 cents or better for their cotton they will be in a position to liquidate their indebtedness and in numerous instances have a surplus. In fact we believe the events of the past year will eventually prove a blessing in disguise as crops next year will be diversified. There is a better feeling among the textile mills, all of which are running full time and some night and day. We think practically all of the mills are once more on a profitable basis.

The psychological effect of 20 cent cotton is good in the cotton growing districts, and as indicated in the above extract there is a real benefit to the holders of last year's cotton. Moreover, the clearing up of the carry-over, which has been increasing from year to year as a result of diminished consumption abroad, should tend to put the cotton-growing industry in a better situation for the future. After this is said, however, the fact remains that the loss of a large part of a staple crop from unfavorable weather and an insect pest is certainly not an unmixed blessing.

It must be remembered that a rise of price on a half crop is a very different thing from a rise of price on a full crop. About one-half of the reduction in yield is due to the reduction of acreage and the other half to the weather and the boll weevil. The acreage diverted from cotton was put into corn and other grain crops, which probably was good policy but at the expense of the farmers in other parts of the country, and the reduction effected by the weather and weevil is a dead loss to somebody. The farmer plowed and cultivated the land and expended as much labor upon part of a crop as though it had made a full crop.

Here is a telegram, clipped from a column of like reports, which illustrates the situation of some of the growers:

> Ada, Okla., September 6, to Weld & Co.—Denison, Madill, Ada, cotton almost entire failure; stock in some fields will not average bale to fifteen acres, half of field will not need picking. Found from three to ten weevil in shuck around small bolls.

It is difficult to get up any optimism as to general business prospects over this kind of news. The people of Asia, South America and Europe, who are counted upon to buy about one-half our normal cotton production, hardly will be able to buy as many cotton goods on a 20 cent basis as they would buy on an 11 cent basis, and the same is true of our own people. Certainly if they buy as many cotton goods at the one price as they would buy at the other they will buy less of something else. Somebody will come out short because of the short crop, and it would seem to be sound reasoning that if the farmers of the South had a larger crop at no greater cost they would be as well off at a lower price, while the rest of the world would be better off.

### The Wheat Situation

The wheat crop of the United States and Canada stands at latest estimates about the same as a year ago, and the world's crop is about the same as last year. The movement of the crop to market has been very heavy both in this country and Canada, and exports exceptionally large. The United States Government reports the exports of domestic wheat and flour in August as equal to 66,695,000 bushels, more than double the exports of August, 1920, and making a total for July and August of 97,000,000 bushels. September will bring the total since July 1st to about 135,000,000 bushels. This is taking our surplus very fast. The market fluctuated during September over a range of about ten cents per bushel, closing the month at about where it began, and losing the gains on the news of general rains in Argentina. The latter fact is of some significance in connection with the attempt to stabilize the price of wheat in this country by means of a duty of 35 cents per bushel. With our wheat selling in Europe in competition with wheat from Canada and Argentina, a rainstorm in the latter country has more influence on the markets of this country than the enactment of Congress.

It has been recognized in well-informed quarters throughout the last two months that the price of wheat between now and the next harvest depends largely upon the crops in Argentina and Australia, two countries which have their harvests in our winter season. Neither of these countries ships wheat to the United States, but their surplus competes with ours in Europe and the price of the surplus makes the prices everywhere. In view of the prospect for light sowings in Russia this fall and no surplus there next year, it would seem to be good policy to sow a larger acreage of wheat in the United States this fall.

### Quality of Spring Wheat

The spring wheat yield is not large, perhaps not over 200,000,000 bushels, and it has been damaged in spots by rains, but the best authorities say that reports of its being generally of poor quality for bread-making are erroneous and that in fact the protein content this year is above the average.

### Other Farm Products

A big corn crop has matured, and with a large carry-over there is more corn in sight than ever before. This has depressed the price to the lowest point recorded by the Chicago

market since January, 1913. Exports are heavy; but Europe is not accustomed to the use of corn, and at best exports are but a small percentage of the crop.

The hog market has been going the wrong way, from the farmer's standpoint, for the last month. In August the price was above $10 per hundred weight in Chicago, from which a decline of approximately $2 has taken place, to the lowest figures since 1916. The market for corn-fed cattle has been fairly good, but gross cattle have been in over-supply, and yielding unsatisfactory returns.

Oats are about as they were at the beginning of September. The yield was of light weight generally in the states producing the bulk of the crop, and the gross cash return per acre is reported at about $2.50 to $3.00.

Dairy products have been doing considerably better than in the early part of the summer, but are about one-third lower than at this time last year. The drought in Europe was a favorable influence, and butter values are 10 or 12 cents per pound above the low point of last June. Eggs have made a good recovery and promise to bring good figures through the winter.

### The Foreign Market

There is no reason to complain of exports of farm products at this time. In the month of August for the first time this year they exceeded in value the amount for any corresponding month of 1920. Exports of meat and meat products are doing particularly well, running above those of the corresponding months of last year and of pre-war years.

These exports are entitled to attention in view of the suggestion occasionally made that this country can get along without Europe and enjoy prosperity within itself. It is true that our exports amount to a small sum in value compared with the total of our domestic trade, and true also that the existing state of unemployment in this country could be largely corrected by a readjustment of industrial costs, but the fact remains that agriculture and the primary industries are developed far beyond the consumptive needs of this country. We consume only about one-half of a normal cotton crop, and the exportable surplus makes the price for the full crop. The farmers of the South have shifted a moderate part of their acreage to corn this year, and their action has helped to depress the price of that grain. Now the farmers of the principal corn states are discussing the feasibility of reducing the acreage in corn by agreement. It would require a drastic readjustment of the industrial organization and of existing property values to make this country independent of Europe, and it is safe to assume that few people are going to direct their own business with that end in view.

### The Unbalanced State of Industry

It does not appear that the position of agriculture or any of the primary industries is generally improved. The cotton-producers have gained by the increased value of their carry-over, tobacco and dairy-products are bringing better prices, and wheat is on a remunerative basis, but all live stock is down to about pre-war prices. Taken as a whole the prices of farm products are so far out of line with the prices of manufactures and charges for transportation that the usual exchanges cannot be made. Hence the state of unemployment in the industrial towns.

We have a letter from M. R. Benedict, Secretary of South Dakota Farm Bureau Federation, at Huron, in which he writes as follows of the effects of present freight rates upon farm products grown in that state:

Feed barley shipped from Central South Dakota points, brings 42c on the Minneapolis market, and the rate is, I believe, 22½c per hundred, or about 11c per bushel; in other words, more than 25% of the selling price of the product in the terminal market and nearly 50% of the return that the farmer receives. Oats are bringing at small towns around this locality, 15c per bushel. It costs 8c per bushel to ship them. There is of course very little advantage to the farmer in even threshing them to say nothing of hauling them to market. The conditions with regard to corn are very much similar. The return on all of these crops is far less than the actual operating cost of growing them and there are probably not 10% of the farms in this state that made actual operating expense this year.

This is a problem that must be considered it seems to me, not alone from the standpoint of present effect, but also from that of the future. There is little question but that a continuation of present conditions means that 25 to 35% of farmers in all of these states of the West, even in centrally located states like Iowa and Illinois, must go out of business next year. They simply cannot get sufficient return from this year's crop nor credit, to go on with next year's production. There is little question but that these western railroads must have volume of business in order to be profitable. If much of the western country goes back to range conditions, no rate that can be applied will make these railroads profitable.

* * * * Evidence was introduced in the recent hearing at Washington to show that Wisconsin alone could absorb from four hundred to six hundred thousand tons of alfalfa hay if it could be gotten there at a price that would justify the dairymen in feeding it. The return to the grower of alfalfa hay in western South Dakota, which is normally a heavy exporter of this product, is now from 45c to $1.50 per ton. It costs $3.50 per ton to bale this hay to say nothing of raising it and hauling it to the car. Consequently, he is without choice in the matter of handling it, and must let it stand in the stacks. In fact, I know of several cases where hay already baled is left right in tho fields because it does not pay to haul it to the cars. Yet there are other sections even within this state where that hay is badly needed. Reliable reports from western South Dakota counties indicate that there is from 85 to 90% of the 1920 alfalfa crop still on hand.

The disposition of this large excess crop that would be of greatest benefit to the country as a whole would be to find means for feeding it to livestock and thus in a certain sense, store it up for future use in the form of livestock and livestock products. Livestock is the natural shock-absorber for under and over-production of farm crops. But freight rates at present are damming up the natural interchange of these products to such an extent that there will be this year very serious shortages in sections not greatly distant from large oversupplies.

The above is a sample of many letters, and while the writer may be a little extreme in his prediction of abandoned farms in Iowa and Illinois, unquestionably his statement of facts is substantially correct. The railroad companies are not interested in maintaining rates under which traffic cannot move, and have made many reductions since the last increase was made, for the purpose of stimulating traffic. More are understood to be in contemplation, but in some way the railroads must obtain revenue sufficient to meet operating expenses, and pay a sufficient return upon the capital investment to induce the further investment in their securities which is necessary to maintain and improve the properties. The farmers themselves are as much interested in this as in obtaining the lowest possible freight charges.

The whole business situation is clogged and obstructed not only by the high cost of railroad operations but high industrial costs, placing goods beyond the purchasing power of consumers. This is the principal reason why millions of men are out of work, and it will have to be squarely faced before any general recovery can take place. The sunshine cure is no remedy for this situation. Prosperity will not be created by cheerful talk while this unbalanced state of industry exists. It will not be created by unemployment conferences unless they bring about an understanding of the necessity for reducing industrial costs. Such make-shifts as spreading what employment there is to include the unemployed and creating employment upon public works are at best effective only as a means of tiding over a temporary situation, and are chiefly objectionable because they actually postpone the readjustments that are necessary to the restoration of a normal state of industry. The natural course for an employer to pursue when reductions of force must be made is to retain the oldest and most worthy employes, and it is not likely that many will be persuaded to do otherwise.

There is no way to have prosperity except by self-supporting, balanced industry—by the free and natural exchange of products and services—and this requires that the compensation of the people in the various industries shall be on such a basis that they will absorb each other's products.

#### Where Is the Fault?

Who is responsible for this situation? It is true that the country is rich in the elements of wealth; food-stuffs and clothing materials exist in such great stocks that their very abundance seems to be one of the causes of the depression; there is no end of work needing to be done. This seems to show that the fundamental conditions are right, and therefore that somebody must be to blame. It is said that society owes everybody an opportunity to earn a living, but that is very general and incomplete statement. Society consists of everybody; it can do nothing except through organization, and has never been very successful in attempts to provide people with a living.

Over in Russia they have been trying the most extensive experiment ever attempted to provide everybody with work and a living, and it has resulted in the most stupendous social break-down of all history. In this country we have the regime of personal liberty, with the responsibility upon each individual to find his opportunity, to place himself where somebody will be willing to pay for his services, and to make provision for his own needs. The grouping of workers in the different industries is voluntary; they make their own bargains, singly or collectively, and the products of each group are exchanged in the markets for the products of the other groups, upon terms that they mutually agree upon.

It is a highly organized, specialized, complicated system of industry, very effective when well-balanced and in full operation, but easily disorganized, because it is inter-dependent, and because there is no authority over it. Nobody has authority to send one man to till the soil, another to mine coal, another to work on a railroad, and so on throughout the industries, or to fix the basis upon which their products or labor shall be exchanged. All of these arrangements are left for them to make for themselves, by bargaining at will, and from this state of freedom results the confusion in industry that exists today.

Responsibility goes with power, and since there is no central authority with power to readjust the industrial organization, so that all its parts will be in right relations to each other, it cannot be said that there is any general responsibility or that anybody is chargeable with the general situation. It is idle to talk about the obligations of society to its individual members unless it is proposed to place the individual members under more definite obligations to society, and to place in the hands of somebody representing society much greater authority over individuals than is now vested anywhere.

In other words, if we want to make somebody responsible for industrial crises, and for unemployment, and all the other ills that trouble us, we must first surrender our freedom, and place ourselves at the disposal of that somebody.

#### The Industrial Forces Must Come to An Understanding

A general state of confusion exists in which the exchanges cannot be made as usual, and production slows down. The individual employer cannot go on making goods unless he

can sell them. When his outlet is closed he shuts down, and when he stops buying materials and paying wages an outlet for other products is closed. Employers and employes are alike affected; it is not a situation to quarrel over, but to investigate intelligently, to find the original cause.

The original cause in this case will be found to be the great rise of prices and wages which was brought about by the war. Wages were advanced because the cost of living, which consisted primarily of farm products, had gone up. As wages and prices went up closely together the balance was fairly well maintained, but it was inevitable that war prices would not be maintained indefinitely in peace times, and farm products now have undergone a great decline, while wages as a rule have not been reduced to correspond.

In some lines wage reductions have been very considerable; in others but slight or entirely absent. The coal miners have taken no reduction, and at the national convention recently held one of their spokesmen announced that when the existing contract expires next April they will ask an increase. Coal is an important factor in manufacturing and transportation costs.

Railroad wages were reduced 12 per cent, on July 1, but although the employes have been taking the pay they have not yet formally accepted the reduction, and a strike threat is still pending. The reduction of 12 per cent, however, is plainly not enough to permit the reduction of transportation charges that ought to be made.

#### General Atterbury On Wage Problem.

General Atterbury, vice-president of the Pennsylvania Railroad, was invited before a meeting of the Mutual Beneficial Association of the road, composed of its employes a few days ago and in his informal remarks referred directly to the wage situation in the following language:

> There is only one solution to the problem, and that is liquidation. How will it affect us? "Well," the farmers say, "we have liquidated and are selling wheat at $1 a bushel." The industries say they, too, have liquidated. They claim steel is selling at pre-war prices, for example. But there are two outstanding features in liquidation that are not yet materially touched. These are coal and transportation.
>
> Both, curiously enough, have been touched with the damning effect of Government control. Then, too, the farmers are united and the industries are solidly united. They both say to the railroads, "get your rates down or we will get them down for you."
>
> Now, the question is, what does a reduction in rates mean to us? You in the accounting department know our earnings today are insufficient to meet interest, sinking fund charges and dividends. Whatever we are doing now is at the sacrifice of the property.
>
> Already there has been a 12 per cent reduction in wages. It has effected us all. You, who are in close touch with operation, know better than I whether there can be a still further reduction in operation costs or use of material. There is nothing much left but a still further reduction in wages.
>
> It is not pleasant for me to have to suggest to you this matter, nor is it pleasant for you to hear. That is facing us, unless we want a receivership or Government ownership.
>
> If a receivership comes to the country's railroads there will be nothing left then for them to do but to reduce wages. We must view this situation as citizens of a great country, with a duty to perform outside of our own individual selfish feelings. Rates must come down. If it is not voluntarily, it will be forced by legislation.
>
> As General Atterbury was leaving the room he was called back by the Chairman.
>
> "Everybody in this room who is with the General in this, raise his hand," called the Chairman. All hands were raised. The General thanked them for their support and left.

The railroad companies should not have to bear the whole burden of insisting upon wage reductions. It is a readjustment in which the public is interested, and the public should give its influence in support of the companies. The issue whether railroad labor shall be a preferred class, fixing its own compensation, without regard to the effect upon other interests must be squarely met. In the long run a fair adjustment is in the best interests of railway employes, for the destruction of traffic or the ruin of railway properties will affect them unfavorably in the end.

#### The Test of Labor Leadership

The existing situation presents a test of the quality of labor leadership. Has it the foresight, the wisdom and courage to act for the best interests of the whole body of wage-earners and of society as a whole?

There is no real conflict of interests, for no class is prospering by present conditions. The number of wage-earners without jobs or on part time shows the futility of attempting to maintain wage-rates above the economic level. The stubborn determination not to yield simply delays the hoped-for revival. They are not engaged in an argument in which the other party may be convinced or coerced; it is an argument with fate; an attempt to coerce economic law.

The labor organizations have great power, which they may exercise for good or ill. They are a part of this free social system, which is dependent for prosperity and progress upon the intelligent co-operation of its members. Nobody can force them to work for wages that they are unwilling to accept, nor on the other hand can they force other people to buy their products or services. There is no power of coercion anywhere, except the general economic law which says that unless a proprietor operates his works he may be forced into bankruptcy and that unless a wage-earner has wages he may be reduced to hunger. All are interested in finding a basis of agreement upon which industry can be restored to activity, but nothing can be done except by agreement.

Undoubtedly the responsible labor leaders are in a trying position. One of them is quoted as saying that "labor unions are not organized to reduce wages," they are expect-

ed to secure advances rather than reductions. Leaders, however, depend for their lasting influence upon their ability to lead wisely and to serve the real interests of their followers, which means that they must serve the best interests of the public as well. There is no achievement worth while for any class unless it promotes the welfare of the entire community. There is a fair adjustment of relations which serves every interest best, because it produces the greatest aggregate results. Anything short of that yields less to every participant. This is not mere sentiment or altruism, but economic law. Labor has the highest return when there is a full demand for all of it, and when all the productive forces of society are in full action.

## Money and Banking Conditions.

The credit situation has been working easier in the industrial sections, where the slowing down of business, general liquidation of inventories and decline of prices has reduced the volume of loans. The loans of 70 New York City banks in the Federal Reserve system on September 14 aggregated $4,665,000,000, against $6,052,000,000, the high figures of the inflation period, on October 10, 1919, a decline of 22.4 per cent. The interior banks, however, show no such degree of liquidation. The loans of 810 member banks reporting to the Federal Reserve Board, most of them in the larger cities and including the New York City banks, on September 14 showed a decline of only 14.8 per cent from the high point, which for them was on October 15, 1920.

The deposits of all national banks declined from $17,155,000,000 on June 30, 1920, to $15,142,000,000 on June 30, 1921, or in the sum of $2,013,000,000, and their loans and discounts declined in the same period from $12,396,000,000 to $11,125,000,000, or $1,271,000,000.

The liquidation of the reserve banks naturally has been by a higher percentage than that of the member banks, as it is only the loans in excess of the latter's capacity that are passed up to the reserve banks. On September 21, the total earning assets of the reserve banks stood at $1,652,278,000, as against $3,309,588,000 on September 24, 1920.

The total earning assets of each of the twelve Federal Reserve banks a year ago, on the 1st day of June last and on September 21, were as follows:

| | Sept. 24, 1920 | June 1, 1921 | Sept. 21, 1921 |
|---|---|---|---|
| Boston | $236,470,000 | $142,599,000 | $109,462,000 |
| New York | 1,010,749,000 | 639,210,000 | 300,835,000 |
| Philadelphia | 233,032,000 | 196,225,000 | 132,421,000 |
| Cleveland | 296,146,000 | 167,316,000 | 160,027,000 |
| Richmond | 131,815,000 | 118,155,000 | 109,796,000 |
| Atlanta | 140,155,000 | 126,663,000 | 123,251,000 |
| Chicago | 556,738,000 | 355,450,000 | 265,896,000 |
| St. Louis | 136,652,000 | 96,003,000 | 88,238,000 |
| Minneapolis | 94,236,000 | 74,662,000 | 76,344,000 |
| Kansas City | 135,000,000 | 100,793,000 | 92,590,000 |
| Dallas | 89,427,000 | 70,345,000 | 64,044,000 |
| San Francisco | 249,168,000 | 182,311,000 | 129,373,000 |
| Total | $3,309,588,000 | $2,269,732,000 | $1,652,278,000 |

These figures show much greater liquidation for the eastern reserve banks, which serve the commercial and industrial interests chiefly, than for the western and southern banks which serve the agricultural interests more directly. It should be understood in this connection, however, that on September 21 the reserve banks of Boston, New York and Cleveland were holding an aggregate of $66,476,000 of paper taken from the reserve banks of Richmond, Atlanta, Minneapolis and Dallas, to enable the latter to extend accommodations in their districts. With allowance for this paper the amounts shown in the table above as loans on September 21 should be increased, Richmond by $24,728,000; Atlanta, $16,430,000; Minneapolis, $7,052,000, and Dallas, $18,266,000. A similar state of affairs, however, has existed throughout most of the year.

It should also be said that the member banks of all the central cities have been and are now lending large sums to their correspondent banks in the west and south.

### Interest Rates

The Federal Reserve banks of New York and Boston have reduced their discount rates to 5 per cent.

In this city interest rates on customers' paper are commonly at 5½ to 6 per cent, with most of the paper on the latter basis. Commercial paper is ruling at about the same. Call money has been ranging at 4½ to 5½. Ninety-day acceptances have been selling on a 4¾ basis, which compares with 6¼ at the high point.

A good deal of corporation money released by the decline of industrial operations has been going into acceptances and Treasury certificates.

The Treasury on September 8 made a combined offering of $600,000,000 in Treasury paper, consisting of 3 year Treasury notes bearing 5½ per cent interest, 6 months certificates bearing 5 per cent interest and 1 year certificates bearing 5¼ per cent interest.

Subscriptions for the three issues aggregated over $1,500,000,000, or 2½ times the offering, which shows the amount of money available for that class of offerings.

Although money is easier and cheaper, and the reserves of the Federal Reserve banks are higher, money is not generally easy, in the sense that banks are eager to lend. Many of them are still heavily indebted to the reserve banks, and have unliquid assets that they would like to get clear of. Some of them, however, are getting free and as they do rates at

the centers weaken. Activity and rising prices in the bond market is symptomatic of an increase of available funds.

### An Example of Bank Deflation

We have a letter from a good country bank in a western agricultural community, giving figures of its condition at different times over the past seven years, and as they illustrate graphically the rise and fall of bank deposits and the acute problem thereby presented to bankers generally, we are giving the figures herewith:

| | Aug. 1, 1914 | April 7, 1917 | April 19, 1920 | Aug. 3, 1921 |
|---|---|---|---|---|
| Deposits ............. | $447,424 | $657,970 | $951,710 | $499,140 |
| Loans .................. | 376,023 | 547,500 | 926,899 | 663,470 |

The high point of deposits was touched on February 28, 1920, when deposits were $1,068,000, since when deposits have fallen away over one-half. This loss in deposits resulted mainly from the fall in the prices of farm products, the income of the community declining faster than its outgo.

With such a heavy loss of deposits this bank was forced to curtail the accommodations it was granting in that community, and from April 19, 1920, to August 3, 1921, its loans were reduced from $926,899 to $663,470, or a little less than 30 per cent. They remain nearly $300,000 above the figures of 1914. If the bank had been obliged to rely upon its own resources it could not have met the demands of its depositors without a greater reduction. The pressure was relieved by loans from the Federal Reserve bank and correspondent banks at the centers.

This illustrates what has taken place generally throughout the agricultural sections, and explains the mistaken idea prevalent in those sections, that the Federal Reserve banks were forcing liquidation. The fact is that the depositors of the local banks were forcing liquidation by drawing down their balances. The bank referred to above could not continue to lend as much money with deposits at $500,000 as with deposits at $951,000. It was obliged to reduce its loans as deposits fell off, but the pressure was relieved to some extent by borrowing at the reserve bank or elsewhere. As a matter of fact the reserve bank of that district extended accommodations to its member banks not only up to the limit of its capacity but borrowed heavily of the eastern reserve banks for that purpose.

Moreover, the borrowings of the large banks in the eastern centers from their reserve banks, which have been critically referred to in some quarters, were largely for the purpose of lending to country correspondent banks situated as this one.

### The Source of Bank Credit

Most of the criticism of the reserve system and of the member banks which has been current in the past year has come from persons who have a vague idea that the banks are the original source of credit. That is a misconception of their function and services. The banks are reservoirs of credit, their function being to gather together the floating cash resources of the community, and to make these resources more available and effective. It is a useful function, but it cannot be magnified into the function of supplying credit as a printing press can turn out money. The banks are not entitled to be entrusted with any such power. They may properly lend what the community deposits with them, and no more. The deposits of a community depend upon its wealth-producing activities. When a carload of wheat or hogs is shipped out of a farming community, such as the one referred to above, it creates a bank deposit corresponding to the sum for which it is sold. When wheat sells for $2.50 per bushel it creates a larger deposit than when it sells for $1.25 per bushel, and when the former is the case the bank can lend a larger sum than when the latter is the case. Therein is the explanation of the tight money situation that has existed in the agricultural districts during the past year. There is no system under which a bank with $1,000,000 of deposits is justified in lending as much money as a bank with $2,000,000 of deposits. If it is done at all it must be done by borrowing, and it could not be justified except in an emergency and temporarily. It would mean a pyramid of credit, exceedingly dangerous in a time of shrinking values.

### The First Obligation

It should be never forgotten that the first obligation of every banker is to keep his institution solvent. The public has a right to expect him to do this. If the public has any reason to believe that he is not guided by this purpose it will storm his doors in an effort to withdraw its funds from his keeping. The banking business depends upon the confidence of the public—upon the public understanding that depositors have the first claim on the funds. If there is any question about that the banking business will disappear off the face of the earth.

This is just as true for the reserve banks as for the member banks. They hold the reserves of the member banks, and it is of the highest importance that they be kept solvent and liquid. They should lend only upon quick assets of undoubted value. It is not their business to support markets or to "carry" debtors, but to handle the funds entrusted to them to carry on the regular trade of the country, and in such manner as will permit them to always

meet their obligations. They can render greater service to the country by keeping their credit unimpaired and discharging their strict functions with perfect fidelity than by attempting such visionary and impossible feats as trying to sustain the prices of all products in the United States when they are falling all over the world. Governor Harding, of the Federal Reserve Board, gave a complete justification for the Board when he said that its policies were guided by a purpose to protect the solvency of the system.

The Federal Reserve banks have rendered enormous service to the country in the emergency through which it has been passing, because confidence in their solvency and ability to meet a crisis has been sustained. If that confidence had been lost chaos would have ensued, and the losses of the country would have been enormously greater. That confidence could not be retained if the banks were conducted upon any but sound banking principles. Public confidence is the greatest asset of the system—the asset most valuable to the country. On no account should it be put at hazard, by entrusting managers or even the Federal Reserve Board, with the task of sustaining markets. Let markets go as they may, and let the people who wish to bet on them do so with their own money or the money they can borrow elsewhere, but the Federal Reserve banks should be kept absolutely safe at all times from market risks.

## Panama Canal Tolls.

It is reported from Washington that the administration is desirous of a postponement of further consideration of the pending bill to relieve our coastwise shipping from the payment of canal tolls until after the international conference for the limitation of armaments. Doubtless it is well to avoid on the eve of the conference a debate in which irritating or provocative statements might be made, and certainly it would be unfortunate at this time, when the United States has assumed the leading part in a movement to substitute the methods of friendly conference and mutual understanding for the methods of aggressive assertion and armed force, to have this country take an action which Great Britain would certainly regard as violating its treaty rights and concerning which all other countries probably would side with Great Britain.

It cannot be too strongly urged that the high purpose of limiting and eventually abolishing expenditures upon armaments, and of settling all differences that arise between countries by peaceful means, depends for realization upon mutual good-will, regard for each other's feelings and opinions, and scrupulous regard for treaty obligations. It depends furthermore upon the development of a knowledge of mutual interests. The whole world must learn that every country has more to gain by policies that serve the common interests than by policies that attempt to gain an advantage for one country over others. In international relations, as in the relations between capital and labor, the world will not get very far toward permanent peace until there is a better understanding of the true harmony of interests, and a disposition to show consideration for others where their interests are involved

### Toll Controversy Unfortunate.

The Isthmus of Panama is one of the great cross-roads of the world's commerce. It is not territory of the United States, and this nation has been among the nations most insistent that by the law of common interest all the world had certain rights of transit and of equal treatment there, no matter what sovereignty existed over the territory, or who owned proprietary rights in the canal. The United States never can get away from the fact that it has steadfastly proclaimed this doctrine, and it should not want to get away from that record, for it embodies a principle upon which all international relations must be ultimately based, if war is to be abolished.

It will be very unfortunate to have any controversy over the question of Panama tolls, either before the international conference or afterward. If we are intending to insist upon an advantage for our own coasting trade, regardless of the interpretation which other countries give to our treaty compact, perhaps it would be more creditable for us to take the action in advance of the conference than afterward, and boldly face it out in the conference. In that case we will have violated the spirit of the conference of which we are chief sponsor immediately before its meeting instead of immediately after. There may not seem to be much choice, but in the former case it at least could not be said that we had felt encouraged to disregard the opinions of other governments by the agreements of the conference.

## The Tariff Act.

The new tariff is held up under protests from many quarters and it is probable that the existing emergency schedules will be maintained in force for some time. The pending Fordney bill is apparently drawn with a view to preventing imports, but without consideration of the fact that preventing imports automatically raises barriers to exports. Nobody wants to export commodities unless he can be paid for them, and there is no way by which foreign countries can make payments but in

their products. The more difficult we make it for foreign goods to enter this country the more difficult we will find it to sell our products abroad, and to collect the debts already owing to us.

**Objections to New Plan.**

The delay over the new bill is largely due to the vigorous opposition raised to what is called the American valuation plan. In the past our ad valorem duties have been levied upon the basis of the foreign invoice, which shows the price paid for the goods by the importer. That is a definite thing, and the importer knows when he buys the goods precisely what the import duties will be. The new plan is to levy the duties upon the wholesale value of competitive domestic merchandise in the American market. This plan is objected to, first, because of uncertainty as to the basis of the computation, and, second, because of the time which must elapse between the date of contracts abroad and the date of importations. Imported goods are commonly bought six months or so before importation, and important changes may take place in domestic values in that time. The change obviously involves the customs charge in uncertainty and where the charge is so large as in many cases the bill proposes to make it, a serious obstacle to business is raised.

**German Industrial Capacity.**

The main reason for the change, it may be assumed, is to make the duties high enough to effectively control importations from the countries with depreciated currencies, which just now are causing what in our opinion is an undue state of alarm. It might be thought from reading the scare stories about German competition that the Germans had the industrial capacity to do all the work of the world. In fact their capacity is no greater than before the war. They were very busy and effective in competition before the war, and yet the rest of the world found enough to do. They are not more formidable in industrial ability or equipment than they were then, and the low value of their currency is not on the whole or for the long run a source of strength. It hampers them seriously in the purchase of raw materials. They are under a serious handicap also from the requirement that 26 per cent of the value of all their exports must be paid into the reparations fund. The so-called advantage which they have in the depreciation of the mark is a fact which is causing the German authorities and financiers the greatest anxiety. At the latest quotation, 117 marks to the dollar, it seems on the verge of disappearance, along with the Polish mark and Austrian crown.

# EXPORTS AND IMPORTS

## Lower Prices an Important Factor in Reductions of International Trade

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Lower prices of the principal articles of international trade are responsible for a large share—probably a larger share than we generally realize—of the fall-off in the foreign trade of the United States, and in fact of all nations. Our own imports in the eight months ending with August, 1921, were but $1,693,000,000 against $3,995,000,000 in the same months of 1920, and the exports only $3,227,000,000 against $5,475,000,000 in the same period of last year; a fall of 57 per cent in the value of the imports and 41 per cent in the value of the exports. But it is only when we compare the prices at which the principal articles were imported and exported in 1920 with those of the same period of 1921 that we realize the important part which lower valuations have had in this tremendous decline.

**Some Examples of Export Values**

A few examples will illustrate and justify the above assertion. The quantity of raw cotton exported in the first eight months of 1921 was practically the same as in the corresponding months of 1920 (1,958,818,000 pounds in the eight months of 1921 against 1,982,688,000 in the same period of 1920), yet the value of the 1921 exports was but $274,000,000 against $820,000,000 for the latter period, the average export price per pound in the eight months of 1921 having been but 14c against an average of a little over 41c a pound in the corresponding months of 1920. The quantity of cottonseed oil exported in the eight months of 1921 was practically double that of the same months of the preceding year, yet the value was only $21,000,000 in the eight months of 1921 against $25,000,000 in the same months of 1920. Wheat exports in eight months of 1921 showed an increase of 103 per cent over the same months of 1920, while the total value increased but 22 per cent. Lard exports increased 60 per cent in quantity but the value actually decreased 10 per cent in that period; and bacon exports which decreased 26 per cent in quantity fell off 50 per cent in value.

### Average Price Comparison

Further evidence of the great importance of prices in the decline of our import and export trade figures, is found in a comparison of the average import or export price of certain important articles in July, 1921, with that of July, 1920, both on the import and export side. Coffee, for example, of which the United States consumes one-half of the world's product, shows an average import price in July, 1921, of 11c per pound against 20c in July, 1920; raw sugar imported in July, 1921, averaged, according to the official figures of the Department of Commerce 3.2c a pound against 16c in the same month of last year; tea 19½c a pound against 34c a year ago; cocoa 6½c a pound against 17½c; and olive oil $1.69 a gallon against $3.64 in the same month of 1920. In the principal articles required for use in manufacturing, the fall off in price is equally startling. Raw cotton imported in July, 1921, was valued, by the Department of Commerce, at 18½c a pound against 60c for the cotton imported in July, 1920; carding wool 11c per pound against 60c; indiarubber 15c a pound against 44c; cattle hides 11½c a pound against 32c; goatskins 33c a pound against $1.27; and ground wood pulp $19.42 a ton against $72.78 in July, 1920, while chemical, unbleached, wood pulp averaged in the imports of July, 1921, $72.21 per ton, against $134.42 per ton in July, 1920. On the export side, the fall in the principal articles which we supply to other parts of the world is equally startling. Cotton exported in July, 1921, went, according to the official statements of the Department of Commerce, at 11.3c per pound against 41.1c in the same month of last year; cotton cloths, unbleached, 7.9c per yard in July, 1921, against 26.5c in July, 1920; wheat $1.50 per bushel against $2.96 one year ago; corn 71c a bushel against $1.81; bituminous coal $5.75 per ton against $9.33; copper 13.2c a pound against 19.8c; refined sugar 4.8c against 9.9c a pound one year ago; potatoes $1.50 per bushel against $3.28 in July of last year; pitch pine lumber exactly one-half the price per M feet in July, 1920; pig iron $25.80 against $51.66; and men's boots $3.30 per pair against $5.45 in the corresponding months of last year.

### Further Details in the Tables

The tabulations printed herewith show the average import and export price in 1920 and 1921 of twenty principal articles forming the import and export trade respectively, the import prices being those of the articles in the countries from which the merchandise is exported to the United States, the valuation being based by the Department of Commerce upon the exchange value of the currency in which their values are stated on their exportation to the United States; the export prices are those at the port of exportation from the United States. Examination of these tables, which show the average import and export prices in January and July, 1920, compared with those of January and July, 1921, makes it readily apparent that the decline in prices began to make itself distinctly visible in July, 1920, and continued downward to July, 1921, when they stand in most instances at 50 to 60 per cent below those of July, 1920.

But while these individual instances of a big fall in the unit value of the most important factors in our foreign trade are of themselves suggestive, an equally impressive evidence of the part which lower prices play in the reduction of foreign trade totals is found by comparing the percentages of fall of total values in all imports or exports with the percentage of advance or decline in the quanti-

*Average monthly import prices of principal articles entering the United States in January and July of 1920 and 1921:*

| | Jan. 1920 | July 1920 | Jan. 1921 | July 1921 |
|---|---|---|---|---|
| Sugar, raw ....lb. | $0.10 | .161 | .061 | .032 |
| Coffee ....lb. | .226 | .204 | .10 | .113 |
| Cocoa ....lb. | .178 | .177 | .086 | .066 |
| Tea ....lb. | .234 | .34 | .191 | .194 |
| Copper ....lb. | .206 | .186 | .152 | .124 |
| Tin, pigs and bars....lb. | .554 | .634 | .446 | .30 |
| Cotton, raw ....lb. | .476 | .602 | .283 | .186 |
| Wool, Carding ....lb. | .446 | .605 | .242 | .111 |
| Silk, raw ....lb. | 10.07 | 7.76 | 6.02 | 5.34 |
| India Rubber ....lb. | .421 | .44 | .294 | .152 |
| Cattle Hides ....lb. | .366 | .319 | .172 | .114 |
| Goatskins ....lb. | .955 | 1.27 | .481 | .327 |
| Sheepskins ....lb. | .424 | .533 | .247 | .196 |
| Pig Iron ....ton | 30.13 | 69.25 | 72.02 | 35.69 |
| Bar Iron ....ton | 89.00 | 184.80 | 131.40 | 64.44 |
| Cheese ....lb. | .397 | .366 | .359 | .282 |
| Cocoanut Oil ....lb. | .165 | .148 | .113 | .082 |
| Soya Bean Oil....lb. | .138 | .112 | .051 | .041 |
| Olive Oil ....gal. | 2.52 | 3.64 | 2.59 | 1.69 |
| Wood Pulp, Chemical, unbleached......ton | 110.00 | 134.42 | 128.93 | 72.21 |
| Wood Pulp, ground..ton | 41.13 | 72.78 | 62.75 | 19.42 |

*Average monthly export prices of 20 principal articles passing out of the United States in January and July of 1920 and 1921:*

| | Jan. 1920 | July 1920 | Jan. 1921 | July 1921 |
|---|---|---|---|---|
| Corn ....bush. | $1.47 | $1.81 | $0.964 | $0.71 |
| Wheat ....bush. | 2.43 | 2.96 | 2.13 | 1.50 |
| Flour ....bbl. | 11.18 | 11.05 | 8.90 | 7.05 |
| Coal, Bituminous ....ton | 5.60 | 9.33 | 7.60 | 5.75 |
| Copper, pigs, etc....lb. | .206 | .198 | .142 | .132 |
| Cotton, raw ....lb. | .408 | .411 | .193 | .113 |
| Cotton, Cloth, unbl...yd. | .204 | .265 | .174 | .079 |
| Pig Iron ....ton | 35.40 | 51.66 | 54.28 | 25.80 |
| Steel Billets ....ton | 55.00 | 65.90 | 122.67 | 37.80 |
| Sole Leather ....lb. | .58 | .514 | .382 | .40 |
| Men's Boots ....pair | 4.65 | 5.45 | 4.20 | 3.30 |
| Women's Shoes ....pair | 3.77 | 4.70 | 3.40 | 2.70 |
| Fresh Beef ....lb. | .208 | .19 | .19 | .127 |
| Bacon ....lb. | .264 | .225 | .213 | .151 |
| Lard ....lb. | .277 | .221 | .188 | .122 |
| Cottonseed Oil ....lb. | .226 | .21 | .116 | .077 |
| Sugar, Ref. ....lb. | .083 | .099 | .077 | .048 |
| Leaf Tobacco ....lb. | .455 | .605 | .45 | .382 |
| Potatoes ....bush. | 2.00 | 3.28 | 1.47 | 1.50 |
| Pitch Pine Lumber M ft. | 50.75 | 62.30 | 58.30 | 31.45 |

*Imports of 50 principal articles in which weight can be shown, in first 7 months of 1920 and 1921, with percentages of increase or decrease in 1921 when compared with 1920:*

| | Pounds (000 omitted) | | Pct. of inc. or dec. in 1921 | Dollars (000 omitted) | | Pct. of inc. or dec. in 1921 |
|---|---|---|---|---|---|---|
| | 7 Mo. 1920 | 7 Mo. 1921 | | 7 Mo. 1920 | 7 Mo. 1921 | |
| Aluminum | 26,543 | 24,802 | — 7 | $7,971 | $5,595 | — 30 |
| Bananas | 2,356,000 | 2,514,800 | + 7 | 11,479 | 11,479 | —.01 |
| Bags, jute | 34,706 | 47,507 | + 36 | 6,027 | 3,041 | — 49 |
| Bristles | 2,306 | 1,817 | — 21 | 4.278 | 3,148 | — 33 |
| Butter | 22,855 | 11,624 | — 49 | 11,789 | 4,950 | — 57 |
| Burlaps | 347,557 | 284,149 | — 18 | 58,805 | 26,328 | — 55 |
| Carbide Calcium | 44,646 | 70.003 | + 57 | 1,693 | 2,826 | + 66 |
| Cattle | 124,957 | 64,416 | — 48 | 8,565 | 3,636 | — 57 |
| Cheese | 9,071 | 9.873 | + 8 | 3,204 | 3,209 | +.01 |
| Cigars | 3,150 | 1,191 | — 65 | 8,422 | 3,291 | — 61 |
| Clover Seed | 22,414 | 30,072 | + 34 | 7,071 | 3,875 | — 46 |
| Coal | 1,326,559 | 1,215,007 | — 8 | 3,519 | 3,611 | + 3 |
| Cocoa | 250,814 | 223,249 | — 11 | 43,839 | 16,491 | — 62 |
| Coffee | 824,584 | 826,631 | + .3 | 176,219 | 83,030 | — 52 |
| Copper in Ore | 72,042 | 54,746 | — 23 | 13,555 | 8,200 | — 39 |
| Copper in pigs, etc. | 288,287 | 153,442 | — 46 | 44,747 | 20,892 | — 53 |
| Copra | 110,927 | 103.077 | — 7 | 8.243 | 4,153 | — 50 |
| Cotton, raw | 247,919 | 61.095 | — 75 | 116,528 | 14,049 | — 88 |
| Cotton, cloth | 26,140 | 12,010 | — 54 | 36,587 | 14,619 | — 60 |
| Creosote Oil | 43,592 | 120,902 | +177 | 981 | 3,136 | +229 |
| Fibers | 539,840 | 387,520 | — 28 | 51,804 | 25,805 | — 50 |
| Flaxseed | 873,544 | 341,992 | — 61 | 49,360 | 9,649 | — 80 |
| Flour | 34,603 | 150,489 | +334 | 2,066 | 6,628 | +228 |
| Gum Camphor | 3,243 | 1,111 | — 65 | 5,750 | 785 | — 85 |
| Gum Chicle | 6,716 | 5,079 | — 24 | 4,785 | 2,655 | — 44 |
| Gum Copal | 44,611 | 8,927 | — 80 | 5,700 | 1,137 | — 81 |
| Gum Shellac | 63.019 | 101,542 | + 62 | 3,662 | 4.688 | + 22 |
| Hides | 367,645 | 198.087 | — 46 | 193,887 | 30,790 | — 81 |
| Lead | 65,374 | 39,670 | — 36 | 3,789 | 1,342 | — 64 |
| Manganese | 527,400 | 665,280 | + 26 | 5,279 | 2,779 | — 48 |
| Meats, fresh | 43.904 | 36,763 | — 16 | 7,032 | 4,417 | — 37 |
| Olive Oil | 18,160 | 24,432 | + 45 | 6,279 | 6,145 | — 2 |
| Paper, newsprint | 779,013 | 832,974 | + 6 | 32,747 | 48,170 | + 47 |
| Petroleum | 15,801,032 | 25,662,264 | + 62 | 28,159 | 45,923 | + 62 |
| Quebracho Extract | 63,019 | 101,542 | + 62 | 3,662 | 4,686 | + 28 |
| Rice | 105,868 | 48,189 | — 57 | 10,965 | 1,970 | — 82 |
| Rubber | 416,982 | 189,604 | — 54 | 185,219 | 41,295 | — 77 |
| Silk, raw | 21,575 | 23,265 | + 9 | 227,348 | 130,257 | — 43 |
| Silk, waste | 6,728 | 2,737 | — 59 | 11,038 | 2,727 | — 75 |
| Silk, artificial | 1,495 | 2,578 | + 72 | 5,201 | 4,416 | — 15 |
| Soda, Nitrate | 1,848,598 | 632,213 | — 65 | 37,571 | 13,803 | — 63 |
| Spices | 43,733 | 35,211 | — 19 | 8,746 | 3,555 | — 59 |
| Sugar | 5,670,296 | 3,860,657 | — 31 | 684,207 | 177,053 | — 74 |
| Sulphur Ore | 499,520 | 262,082 | — 47 | 1,129 | 523 | — 53 |
| Tea | 53,662 | 30,612 | — 43 | 14,624 | 5,377 | — 63 |
| Tin, ore | 35,840 | 17.920 | — 50 | 12,218 | 3,753 | — 69 |
| Tin, Pigs | 83,503 | 23,087 | — 72 | 49,950 | 8,115 | — 84 |
| Tobacco, leaf | 55,530 | 29,491 | — 47 | 48,630 | 32,657 | — 33 |
| Wheat | 182,495 | 1,131,017 | +520 | 7,574 | 30,958 | +309 |
| Wool, raw | 199,084 | 257,655 | + 30 | 105,374 | 52,322 | — 50 |
| Wood pulp | 904,960 | 445,760 | — 51 | 35,672 | 17,736 | — 50 |
| Total | 35,546,091 | 41,382,256 | + 16 | 2,422,949 | 997,666 | — 60 |

*Exports of 50 principal articles in which weight can be shown in first 7 months of 1920 and 1921, with percentages of increase or decrease in 1921 when compared with 1920:*

| | Pounds (000 omitted) | | Pct. of inc. or dec. in 1921 | Dollars (000 omitted) | | Pct. of inc. or dec. in 1921 |
|---|---|---|---|---|---|---|
| | 7 Mo. 1920 | 7 Mo. 1921 | | 7 Mo. 1920 | 7 Mo. 1921 | |
| Apples | 77,250 | 206,250 | +167 | 4.960 | 9,639 | + 94 |
| Apricots | 7,181 | 7,103 | — 1 | 1.896 | 1,276 | — 32 |
| Autos, Com'l | 54,000 | 15,000 | — 72 | 28,183 | 7,799 | — 72 |
| Autos, pass. | 267,000 | 57,000 | — 78 | 98,059 | 22.343 | — 77 |
| Bacon | 395,417 | 264,688 | — 32 | 99,711 | 46,655 | — 54 |
| Barley | 337,700 | 522,600 | + 54 | 11,396 | 9,448 | — 17 |
| Bars, steel | 813,765 | 342,052 | — 57 | 29,877 | 12,060 | — 60 |
| Beef, fresh | 82,180 | 9,028 | — 88 | 16,411 | 1,024 | — 90 |
| Binder Twine | 43,437 | 53,252 | + 23 | 6,574 | 7,756 | + 18 |
| Bolts, Nuts, etc. | 49,920 | 43,566 | — 12 | 3,806 | 4,146 | + 8 |
| Butter | 15.529 | 5,825 | — 62 | 9,043 | 2,358 | — 73 |
| Cheese | 13,300 | 9,485 | — 28 | 4,059 | 2,121 | — 48 |
| Cigarettes | 30,918 | 14,556 | — 53 | 23,722 | 9,335 | — 61 |
| Coal, anthr. | 5,258,560 | 5,770,240 | + 9 | 24,848 | 27,965 | + 12 |
| Coal, Bit. | 34,585,600 | 32,630,080 | — 6 | 112,579 | 93,236 | — 17 |
| Copper, pigs, etc. | 449,432 | 334,827 | — 25 | 92,113 | 47,045 | — 49 |
| Corn | 545,664 | 4,072,376 | +644 | 16,062 | 58,194 | +261 |
| Cotton, raw | 1,907.920 | 1,704.136 | — 11 | 792,150 | 243,572 | — 69 |
| cloths | 137,029 | 68,785 | — 49 | 151,977 | 40,629 | — 73 |
| Cotton, cloths | 137,020 | 68,785 | — 49 | 151,977 | 40,629 | — 73 |
| Cotton, Yarn | 13,112 | 8,829 | — 33 | 11.057 | 3,699 | — 67 |
| Eggs | 16,036 | 16,300 | + 2 | 7,783 | 5,232 | — 33 |
| Fertilizers | 1.928,640 | 1,137,920 | — 41 | 23,797 | 9.418 | — 61 |
| Flour | 2,773,204 | 1,825,348 | — 34 | 158,105 | 70,568 | — 55 |
| Hams | 132,412 | 138,578 | + 4 | 35,909 | 28,745 | — 20 |
| Hides | 13,587 | 12.738 | — 6 | 5,231 | 1.928 | — 63 |
| Hops | 16,640 | 12,109 | — 27 | 11,819 | 4,518 | — 62 |
| Lard | 333,332 | 503.507 | + 51 | 82,136 | 69,851 | — 15 |
| Lard, Comp. | 18,801 | 31,070 | + 65 | 4,686 | 3,544 | — 25 |
| Lard, Neutral | 16,216 | 15,110 | — 7 | 4,157 | 2,296 | — 45 |
| Leather, sole | 16,050 | 6,941 | — 57 | 8,896 | 2,697 | — 70 |
| Locomotives | 153,750 | 103,800 | — 32 | 32,594 | 21,622 | — 32 |
| Malt | 84,592 | 217,464 | +154 | 4,416 | 8,624 | + 95 |
| Milk, cond. | 309,632 | 152,162 | — 51 | 47.195 | 20,684 | — 56 |
| Nails | 115,883 | 47,322 | — 59 | 7,167 | 3.207 | — 55 |
| Oil Cake | 266,105 | 623,108 | +135 | 9,521 | 12,563 | + 32 |
| Oil, cottonseed | 105,453 | 207,576 | + 97 | 24,035 | 20,340 | + 17 |
| Oil, Mineral | 14,171,944 | 12,938,184 | — 9 | 298,470 | 254,804 | — 14 |
| Oil, Oleo | 39,791 | 81,095 | +103 | 10,237 | 9,312 | — 9 |
| Paraffin | 236,675 | 112,101 | — 53 | 20,430 | 7.111 | — 64 |
| Pipes, iron | 399.782 | 728,600 | + 82 | 26,450 | 48,102 | + 82 |
| Pork, fresh | 19,984 | 44,101 | +120 | 4,914 | 7,612 | + 55 |
| Prunes | 59,260 | 50,111 | — 15 | 9,328 | 3,554 | — 61 |
| Raisins | 33,326 | 5,329 | — 84 | 5,191 | 1,152 | — 76 |
| Rails, steel | 745,920 | 575,683 | — 23 | 19,596 | 15,694 | — 20 |
| Rice | 279,192 | 372,881 | + 33 | 30,151 | 12,491 | — 59 |
| Rye | 2,038,288 | 1,030,344 | — 49 | 77,223 | 31,606 | — 60 |
| Sheets and Plates, Iron | 1,496,008 | 903,219 | — 39 | 50,991 | 36,830 | — 28 |
| Structural Steel | 530,880 | 548,800 | + 3 | 17,755 | 22,783 | + 28 |
| Sugar, ref. | 820,794 | 573,147 | — 30 | 82,787 | 33,209 | — 60 |
| Tinplate | 313,669 | 173,156 | — 45 | 24,048 | 13,796 | — 42 |
| Tobacco, leaf | 277,751 | 318,056 | + 13 | 149,435 | 136,384 | — 9 |
| Wire | 373,150 | 170,790 | — 54 | 20,475 | 10,382 | — 50 |
| Wheat | 4,330,860 | 8,883,060 | +105 | 198,372 | 257,864 | + 30 |
| Total | 77,562,421 | 78,700,291 | +2.2 | 3,051,789 | 1,839,513 | —39.7 |

ties of merchandise representing these value figures. If, for instance, we find that the total quantities of merchandise imported or exported in 1921 are practically the same as in 1920 but that the total value figures show big declines, we are still further sustained in the theory that the fall off is largely the result of lower prices of the principal articles forming the trade in question.

### Exports and Imports of Foreign Countries

While a complete comparison of the change in total quantities imported or exported with those in total values is not practicable in the case of the United States, which does not report the quantities of all merchandise imported or exported, such comparison is practicable in the case of certain other countries which publish figures of the total weight of their imports and exports respectively and present them in conjunction with the figures of total value. A considerable number of foreign countries, especially in Europe, publish in their official trade reports the total quantities in pounds, tons or quintals of all merchandise

imported and exported and in close conjunction with them a tabulation of the total value of the imports and exports respectively; and a comparison of their figures of total quantities of merchandise entering or leaving the country with the total value figures of their imports and exports gives further evidence that lower prices play an important part in the reduction of their trade values in 1921 as compared with 1920.

The official figures of a few of the more important countries illustrate this method of comparing the increase or decrease of quantities with those of values. In the case of France, the total weight of all merchandise imported in the first seven months of 1921 is 31 per cent less than in the same months of 1920, while the reduction in values in the same period is 61 per cent. On the export side her figures show an increase of 26 per cent in total weight of merchandise exported but a decrease of 14 per cent in value. Belgian imports in the first six months of 1921 show an increase of 36 per cent in quantity but a decrease of 23 per cent in value, while the exports show an increase of 80 per cent in quantity and a decrease of 9 per cent in value. Brazilian official figures covering the first six months of 1921 show a reduction of 7 per cent in quantity and 25 per cent in value in imports, while on the export side there is a decrease of about 10 per cent in quantity but of 60 per cent in value, the value figures in the case of Brazil representing the "equivalent in pounds sterling," as stated in the official import and export publication of that government.

#### Weight and Values United States Foreign Trade

In the case of the United States, as above indicated, it is not possible to state the total quantity, by weight, of all imports or exports because of the fact that in many articles the government does not state the quantities imported or exported but only states value. By combining, however, all articles in which quantities are stated and reducing all quantities to pounds, it is practicable to compare the increase or decrease in the quantity and value of the articles forming about two-thirds of the total value of the merchandise imported or exported.

A tabulation of this character, stating the weight in pounds of fifty principal articles imported into and fifty principal articles exported from the United States in the seven months ending with July, 1921, compared with the same months of 1920, is presented herewith, showing the per cent of increase or decrease in the quantity and value respectively of each of the one hundred articles thus named, and also the per cent of increase or decrease in the grand totals of quantity and value of the respective groups. This tabulation, which includes articles forming about 60 per cent. of the total value of all imports and exports respectively, shows a slight increase in the aggregate weight of the fifty articles enumerated in each of the tables, whether imports or exports, when comparing the seven months of 1921 with the corresponding months of 1920, but a big reduction in total value. On the import side, the aggregate weight of the fifty principal articles for which it is possible to state quantities is 16 per cent greater in the seven months of 1921 than in the same months of 1920, while the aggregate value of the same articles shows a reduction of 60 per cent in 1921 as compared with the corresponding months of 1920—an increase of 16 per cent. in weight and a reduction of 60 per cent in value. On the export side, conditions are somewhat similar; the weight increased about 2 per cent and in value a fall of 40 per cent, when comparing the first seven months of 1921 with the corresponding period in 1920.

#### Coal, Petroleum, Wheat and Corn Special Factors

The above assertion that the fifty principal articles of import show an increase of 16 per cent in aggregate weight but a decrease of 60 per cent in total value and that the fifty principal articles of export show an increase of 2 per cent in aggregate weight and a decrease of 40 per cent in total value, while literally true, is due in part to somewhat unusual and perhaps abnormal conditions, especially as relates to imports. On the import side, the biggest increase in weight occurs in petroleum which jumped from 15,000,000,000 pounds in the seven months of 1920 to 25,000,000,000 in the same months of 1921 but did not materially increase or decrease its price per unit of quantity, and this unusual condition is responsible in part for the fact that the grand aggregate of quantity imported increases 16 per cent while the grand total of value decreases 60 per cent. If, however, we eliminate petroleum we find that the other forty-nine articles show in their aggregate a fall off of 19 per cent in weight, while the decline in value is still about 60 per cent. On the export side bituminous coal, petroleum, wheat, and corn are the biggest factors in quantity, coal and petroleum showing slight decreases in quantity and value, while wheat shows an increase of 105 per cent in quantity but only 30 per cent in value, and corn an increase of 644 per cent in quantity and but 261 per cent in value. Of the fifty articles named in the import statement, 66 per cent show a decline in quantity and 82 per

cent a reduction in value; on the export side 64 per cent of the articles named show a reduction in quantity and 78 per cent a reduction in value.

#### Value and Quantity Percentages

The facts above stated, that big increases in weight occur in classes of merchandise having a low value per unit of quantity, make it apparent that a mere comparison of the aggregate number of pounds of the articles named in the import or export list with the aggregate values of the respective lists would be misleading as to the share which lower prices play in the big fall off in total values and of imports and exports. A close examination of the table, which shows quantities and values and per cent of increase or decrease in each of the 100 articles enumerated will show that in many articles on both the import and export side there are large decreases in quantity, though in practically every case the per cent of decrease in value is much greater than of quantity. As a general rule, the largest per cent of reductions in quantities occurs in manufacturing material, though in most of these articles the per cent of reduction in values is greater than that of quantities. In most of the manufactured articles in which it is possible to show weight there is also a reduction in quantity and a much greater reduction in value. Foodstuffs as a rule show slight changes in quantity but marked reductions in value; in sugar imported the per cent of reduction in quantity is large but the reduction in values much greater, while in wheat exported the per cent of increase in quantity is much greater than the per cent of increase in value.

#### Greatest Decrease Due to Lower Price

A close study of the records, article by article, of imports and exports in 1921 as compared with 1920 seems to justify the opinion more than one-half of the fall off in our import and export trade is due to lower prices and the remainder to an actual reduction in the quantities of merchandise imported or exported.

The tables herewith presented show quantities and value of the 100 principal articles imported and exported in the first seven months of 1921 compared with the same months of 1920, and the percentage of increase or decrease in both quantity and value, article by article, and for the grand aggregate of both weights and value; also a tabulation showing import and export prices in January and July of 1920 and 1921 of about forty principal articles of commerce.

# THE RAILROAD PROBLEM

## The Fundamental Factors Discussed by a British Expert

*Sir William Acworth*
*in the*
*London Times*

[The British railroads were taken over by the Government at the outbreak of the war and returned to private ownership on August 15 last, but under a new law which radically changes their status. This act provides for the compulsory amalgamation of all the railroads into four independent systems, thus practically abandoning the theory of maintaining competition in railway service. A public tribunal, corresponding in power more or less to our Inter-State Commerce Commission, is established to have supervision over rates and service. On the day of the taking effect of this act of Parliament, the London Times issued a Railway Supplement, containing numerous articles dealing with different phases of the railway problem, written by recognized authorities. One of these articles, written by Sir William Acworth, deals with leading questions which are vital to railway administration everywhere, and as they are handled in a very lucid and informing manner we have reproduced the article nearly in full herewith. Sir William Acworth has served in numerous public capacities in connection with railways, notably in recent years upon the Canadian Commission and the Royal Commission upon the Railways of India. He is at this time a member of the latter body. His discussion of the principles of rate-fixing and classification, and of the problems now confronting railroad management in Great Britain is as pertinent to conditions in the United States as if written with direct regard to them.]

The economic man—if a specimen of that interesting animal could really be captured—would doubtless assert that the economic basis of railway rates is merely the law of supply and demand. And he would be quite correct. But the edifice is subject to such thrusts to one side or the other, now by positive legal enactment, and again by the force of custom lying upon us with a weight deep almost as life, that the superstructure often rocks upon its foundations.

Let us first consider the theoretical working of the law. Railways will not be supplied unless there is evident demand for them—that is, unless somebody will provide the money that they cost. And that somebody will normally be sooner or later the customers who use the railways and pay rates and fares. Even when built, railways will not be worked unless somebody meets the costs involved. These costs are of three kinds—actual out-of-pocket cost of working the service, mainly wages and coal; cost of maintaining the plant and equipment; and return on capital. Unless the first set of costs is covered by the receipts, the railway has to shut down pretty quickly. The second set can be postponed, if not wholly, at least to a considerable extent, for a long time in the hope of better days to come. As for the third set of costs, a railway can continue indefinitely as a going concern even though the return on capital be nil. There is nothing in this peculiar to a railway. Compare the position of the rubber industry at the present moment. A rubber company will come to a stand-still unless it can sell its output at a price to cover coolies' wages and minimum establish-

ment charges, but it will probably make drastic cuts in its expenses for cultivation and manure, and it has no need to pay dividends. Even if it has issued debentures the holders will probably prefer to wait rather than foreclose on a valueless property.

But the analogy with the rubber company is not on all fours. Rubber companies are purely private enterprises. There are many hundreds of them. No one of them is indispensable to the community. Each is at liberty to make any profit it can at one time, and correspondingly is permitted to go down unaided if it ceases to be self-supporting. Railways are few and far between. Even in countries well supplied with railways the proportion of the area which is served by two is very small. And consequently railways are very seldom abandoned, however unprofitable they may be as commercial enterprises. In some shape or form the public is forced to come to their assistance, as has happened more than once, for instance, in French railway history. And indeed this peculiarity of railways goes farther. It is taken for granted that the law of supply and demand will induce private enterprise to produce all the rubber required. But in almost every country—Great Britain is the only serious exception—public money has been devoted to the construction of railways considered to be necessary in the public interest.

### Rate Fixing

To turn from construction to day-to-day working, how far does the law of supply and demand govern the rates and fares which a railway charges? In an old, rich, and fully populated country such as England the working of the law is obscured by so many outside things, statutory restrictions, legal and administrative regulations, competition—not only by other railways but by water—and so forth, that it is difficult to see the wood for the trees. Let us imagine a railway company in vacuo, subject to no restrictions and substantially free from competition. How will it fix its rates? Presumably it will act like any other trader, who charges for his wares not, as is sometimes supposed, the highest price at which he can get them sold, but the price which he believes will give him the largest net profit on his business as a whole.

Now this profit is the product of two factors: The number of articles sold and the amount of profit on each. And this figure can be ascertained only by the method of trial and error. Normally reduction of price increases consumption. It may or may not increase net profit, for clearly a profit of 20 per cent on the sale of 50 articles is greater than a profit of 8 per cent on the sale of 100. The merchant or shopkeeper is permitted to solve these questions for himself. But in countries where public opinion rules the railway manager is not usually undisturbed in his study of them. The old apple-woman who, though she knew she sold each apple at a loss, believed she made a substantial profit because she sold so many, has left a very large family of descendants.

The average passenger who uses an excursion train carrying twice as many passengers as an ordinary train, refuses to believe that it may yet be less profitable. Still less does it occur to him to remember that possibly half the passengers in the excursion train would have paid full fare had the cheap train not been available. To the railway manager, on the other hand, an excursion train corresponds to an after-season sale, at which, once the demands of customers ready to pay full price are satisfied, the rest of the stock is sold off at prices sufficiently reduced to effect clearance. Or, to take another illustration, a railway when it reduces rates or fares may be compared to a hotel which in the fashionable season charges each guest 30s. a day and gets it, but in the off-season offers en pension terms of three guineas a week, for they cover out-of-pocket expenses for food, wages, and firing, while otherwise the rooms would stand empty, and even the running expenses would not be met.

### Cost Plus a Profit

There is another respect in which railway management may usefully be compared with ordinary business. No manufacturer, except where by patent or otherwise he has a practical monopoly of an article in general demand, expects to sell his output at cost plus a fixed profit. He balances large profits here against small profits or even probable losses elsewhere. What he looks to is the total profit on the whole business. A merchant or shopkeeper, if he is to retain his customers, has to keep a stock of things so seldom demanded that he can hardly hope to make a profit on them. He has to sell articles of small value but of high utility—sugar is the stock instance—almost at cost, and to rely on the sale of articles of comparative luxury to redress the balance. So too with a railway. A railway carries pigs of iron at a low rate, pigs of lead at a higher rate, and ingots of copper at a yet higher rate, not because the cost of carriage differs appreciably, but for precisely the same reason that the grocer makes a bigger profit on tea than on sugar. Or, again, a railway runs suburban passenger trains at frequent intervals in the middle of the day and late at night, though the passengers are few and the service unremunerative, because otherwise the suburb would cease to be residential and the crowd in the trains in the morning and the evening would tend to disappear.

### Tempering the Wind

No dissertation on railway rates would be complete without discussion of the famous phrase "charging what the traffic will bear." This has been described as a "vile phrase," a "maxim of extortion." Had the railway men been wise enough to lengthen it by two syllables and express it as "not charging what the traffic will not bear," they would have escaped criticism more easily. The present writer once ventured to suggest that the true phrase should have been "tempering the wind to the shorn lamb," for this is really the underlying principle.

Railway business differs from most other businesses, though not from all, by the fact that the standing charges represent a very high proportion of the total cost of carriage. Roughly speaking, taking the world over, we may say that out of every sovereign charged to the public one-third only represents actual cost of operation, another one-third is absorbed in general establishment charges and maintenance of the plant; the remaining one-third goes to remuneration of capital. We may go a stage farther, and say that of the third which represents actual cost of operation only a fraction is chargeable against any individual consignment, though there is a partial exception to this in the case of articles such as coal, where the individual consignments may be so large as to have a specialized carriage cost of their own.

Now the result of this is twofold: the one aspect is represented in the railway maxim, "Any rate is better than no rate," which means to say that the extra cost of what the French economists call the extra ton is almost negligible; and therefore even a minimum rate yields some margin of direct profit, and accordingly the railway is better off with the traffic than without it. The other aspect is that, as the minimum rate on the extra ton may do little more than cover the extra cost of carrying it, somehow the deficiency must be made up; some traffic must not only pay its share of total cost—operation, maintenance, and capital charges—but must make up the share of these charges which the traffic carried at the lowest rates fails to pay, either because at higher rates it would not be profitable to send it, or because it has access to a cheaper form of transport.

### Classification

The railway companies then temper the wind to the shorn lamb by the establishment of what is known as a Classification—that is, a division of all the articles known to commerce into categories, based mainly on values, coal, iron ore, and dung coming at the bottom, tea and cotton cloth half way up, and silk and cigars at the top. If for the lowest class the rate is 1d. per ton per mile, it will probably be 3d. for the intermediate class and 6d. for the highest. Now it does not cost twice as much to carry a bale of silk or a chest of cigars as to carry a bale of grey shirtings. But whereas the latter may be worth £100 a ton, the value of the former may be 50 times as much. Railways being, as they are, a necessary of modern life, is it not reasonable and

in accordance with the accepted principle of taxation, as exemplified in our own graduated income-tax and the ad valorem Customs duties levied in most foreign countries, that more than a percentage proportion of the cost of providing the railways should be laid on commodities so valuable that the charge for their carriage never can amount to more than a fraction of their value—that is, that a larger than average share of the burden should be imposed upon the shoulders best able to bear it?

This principle of charging what the traffic will bear is really in no way peculiar to railways. Many other instances of its application in other fields than that of taxation can be given. Stockholders, auctioneers, and so on charge a fee based not upon the amount of work which the transaction involves, but on the value of the property to which the transaction relates. Solicitors in carrying through the transfer of property are required by statute to charge, not as in former days according to the length of the deed, which was supposed to be a rough measure of the cost of service, but fees calculated as a percentage of the value of the property. Indeed, one may say that in this instance cost of service as the basis of charge is deliberately set aside by Parliament, for it is not as a rule the large properties where the titles need the most careful investigation. One may even go on to point out that a doctor charges more for attending the master than attending his servant, though we may assume that he places his best skill equally at the service of both; and that a cemetery chaplain, acting presumably with episcopal sanction, charges different fees for reading the burial service according as the corpse is placed in the common earth, in a brick grave, or in a family vault.

But it is not therefore to be supposed that railway rates are based solely upon value of service. Cost of service also has to be taken into account. It is usually higher where the articles are more valuable, mainly because they are handled in much smaller consignments; but not always. Empty fruit baskets, for instance, are of small value and occupy space out of all proportion to their weight. They naturally therefore form a bone of chronic contention between the railways and the traders; the one side arguing justifiably that the rate should be high because the cost is great, and the other side arguing, equally justifiably, that the rate should be low because the value is small.

## The Railway Catechism

Bearing then all these different considerations in mind, we may sum up the railway rates experts' catechism in the following precepts:

(1) Charge no rate so high as to stop the traffic passing, provided the rate be not so low as to cease to cover the extra cost of dealing with it.

(2) Distribute the general expenses incident to the business as a whole over the whole traffic, on the basis of a rough equality of sacrifice, up to the point where the total receipts cover the total expenses plus a reasonable return on the capital involved, corresponding to the accepted return on capital taking equal risks in an ordinary business.

(3) Always bear in mind that, though within limits the same required net return can be obtained by a large profit on a small turnover as by a small profit on a large turnover, the former policy has nothing to recommend it except that it saves the management trouble; the latter not only enures to the benefit of the public at large, but forms a stronger basis of security for the future welfare of the undertaking from the shareholders' point of view. Or, to translate this last precept into concrete form; keep up the fares for first-class passengers so long as you do not drive them into the third class, but reduce the fares for the mass of the people as far as you can afford to do so, even though this makes it necessary to run a larger number of trains to earn the same net revenue.

## The Immediate Problems

It is by these principles that enlightened railway management is guided. But the British public has refused hitherto to entrust railway management to enlightened self-interest, and has thought it well hitherto to restrict the limits within which it may operate. The Statute-book contains whole series of Acts fixing maxima beyond which the companies may not charge. In 99 cases out of 100 these maxima have been superfluous; in the 100th case they have usually been harmful. Under the new Railways Act they will be swept away and replaced by a new system under which railway companies will in effect be authorized to charge such rates as they believe to be commercially justifiable, if and when they can obtain the sanction of an expert Tribunal after it has heard all that those who will have to pay the rates and fares can urge on the other side.

The railway companies in framing and the Tribunal in sanctioning the scales of rates and fares for the future have before them an extraordinarily difficult task. We have compared railway rates to taxation because they are adjusted in relation to ability to pay. But the analogy fails at an important point. Income-tax has to be paid if the taxpayer can pay. He is not asked whether he is willing. But railway rates and fares can be avoided by the simple method of not traveling or not consigning traffic. And our railways, in common with those of almost all other important countries, are to-day face to face with a novel situation. Working costs have risen enormously. Rates and fares have everywhere been put up to meet them. The increase since the war is estimated to be roughly 112 per cent in the case of goods and something like 100 per cent in the case of passengers. The percentage increases in America are hardly less. On the Continent they are far greater. Even at these rates railways in America are at present hardly covering their working expenses. On the Continent they are being worked at an actual loss.

Where our railways would stand if they could carry on for a consecutive six months without strikes it is difficult to say. But on all hands our railway men are wondering whether rates and fares can be profitably maintained at their present level—that is, whether they will not cause such a shrinkage of traffic that the railways in their own interest will find it desirable to reduce the general level. It is not only that traffic may fall off because in railway phrase it cannot bear the rate—in other words, that the railway rate absorbs all or almost all the margin between cost at the point of origin and selling price at destination—but also that no one yet knows what are the potentialities of road motor competition.

## A Vision of the Future

It may be that we are on the eve of a revolution. Railways are as necessary as roads. And roads have long been recognized as public necessities to be provided mainly—till the last few years one might have said wholly—at public cost. For certain essential public services, for the carriage of bulk commodities of low value, and for long distance traffic of all kinds, we cannot imagine that railways will be superseded. The future may show, and not in England only, that it is necessary for the public purse to bear at least some portion of the cost of providing and maintaining our highways of steel just as it does now in the case of ordinary highways, leaving the charges made to the users to cover the remaining cost of provision and maintenance, and the whole cost of actual carriage.

This is in one sense a vision of the future. But once Parliament has accepted the principle of adjusting charges to revenue, and has provided that they shall be so fixed as to yield as far as practicable, with efficient and economical working and management, an annual net revenue equivalent to the pre-war net return, the question has been brought within the scope of practical politics.

1812

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, November, 1921.

## The Railroad Situation.

THE railroad problem at this time dominates the entire business situation. The burden of increased freight charges upon all kinds of industry, the plight of railroad finances, the efforts of railroad managers to reduce operating expenses, the impending railroad strike, the test of the efficacy of the new Railroad Labor Board as an agency of conciliation, and the demand in some quarters for the repeal of the Esch-Cummins law, are the outstanding features of the day, and present questions of the utmost importance.

### Freight Rates and the Farmers

Deere & Co., of Moline, Illinois, one of the oldest and most reputable concerns manufacturing agricultural implements, have sent us copies of a letter received by them from a farmer living in the neighborhood of Culbertson, Nebraska, and of their reply thereto, which set out graphically present relations between the prices of farm products, prices of manufactured goods and transportation charges, and the effect of these abnormal relations upon business.

We have not the space to give the letters in full, but the following extract from the farmer's letter gives the gist of it. He says:

> I need a wagon and my dealer wants the price of 650 bushels of corn, the same wagon I could buy with 200 bushels of corn before the war. The harness man wants the price of a wagon load of hides for a No. 1 harness. I simply cannot see my way clear to buy wagon, harness or anything else that I can possibly manage to get along without.

Deere & Company make a lengthy and detailed reply, in which they first tell of the rise in the price of wagon stock in recent years due to the depletion of our forests, a factor of great general interest, but for which no immediate remedy is possible. They then go into the effect of increased freight charges, as follows:

> Our present price, F. O. B. Moline, on a farm wagon, is 100 per cent higher than our price of 1914. At this price we are selling this wagon at approximately 20 per cent less than our cost. The cost to you at Culbertson, Nebraska, however, does not bear the same relation to the pre-war price, for the reason that in 1914 the freight on a farm wagon from Moline to Culbertson was $1.37 a hundred; the present rate, including the war tax, is $2.32.
>
> A farm wagon weighs 1200 lbs. The difference in freight of 95c per hundred makes the transportation on this wagon alone cost $11.40 more than it did before the war. The increased transportation costs upon the materials that go into the wagon are even greater than this amount.
>
> When you come to pay for this wagon through the sale of corn in the Chicago market, you have a still greater disadvantage, due to the fact that corn has declined since 1914. The freight on corn from Culbertson to Chicago in 1914 was 24½c a hundred, or approximately 14c a bushel; today, with the 3 per cent war tax included, it is 47c a hundred, or approximately 26c per bushel, so that you pay 12c a bushel more to get your corn to Chicago than you did in 1914.
>
> You state that it requires 650 bushels of corn to buy a wagon today. At 12c a bushel increased freight this means that you are paying the railroads $78.00 more transportation on the corn necessary to buy this wagon, therefore your increased contribution to the railroad company in getting this wagon out there and shipping corn enough to Chicago to pay for it, is $89.40.
>
> You can well see from this that it is absolutely impossible for any of us to get back to a normal basis of prices until the cost of transportation is very materially reduced. You ask us when conditions will change; we tell you, when transportation costs are gotten back upon a reasonable basis. The great difficulty in getting this adjustment now is the expense the railroads are put to for labor, for example, here in this community, while the going rate of labor is 30c an hour, at the Rock Island shops 43c per hour is being paid for eight hours a day and time-and-a-half for overtime, with the proviso that if more than one hours' overtime is worked, even though it be ten minutes, five hours' additional compensation is charged. Locomotive engineers are getting from $3,500 to $5,000 a year. A good deal the same condition maintains in our coal mines.
>
> We all must work, through our congressmen and through a united public sentiment, to secure a re-adjustment of these railroad and mining costs before any of us can hope to resume business in a normal way. As far as we here are concerned, we have already made substantial reductions in our prices and expect to continue to do so in future as reduced costs of production permit. We are continually operating at a very substantial loss. The business world, outside of transportation and mining, has gone as far as it can until it gets relief through these channels.

The letter goes on to work out the effect of the increased freight charges upon the prices of farm implements, but the factors are practically the same as in the case of the wagon, outside of the factor of wood stock. The farmer's buying ability is calculated on the basis of corn at 60 cents per bushel in Chicago, but this letter was written in Au-

gust, since when corn has suffered a heavy decline, the present price being about 47 cents. As country dealers in the tributary territory buy on the basis of the Chicago market, the Nebraska farmer would now get 13 cents per bushel less than when the foregoing calculation was made, and have to give a correspondingly larger amount of corn to buy a wagon, or anything else.

#### Calculation by Department of Agriculture

Professor George F. Warren, of the Bureau of Farm Economics, Department of Agriculture, Washington, formerly of the New York State College of Agriculture, and unquestionably one of the best authorities in the country upon economic subjects directly related to agriculture, has made a calculation, recently published by the Department of Agriculture, of the purchasing value of the principal farm products, measured in other staple products and compared with their purchasing value in the same products before the war. The summary is as follows:

> "Compared with a 5-year average before the war as 100, the purchasing power of some farm products at prices paid to farmers in June, 1921, were as follows: Corn 61, oats 60, barley 53, wheat 93, rye 101, buckwheat 101, flaxseed 55, beans 81, corn 56, cotton 51, cottonseed 52, hay 68, cabbage 111, onions 73, potatoes 64, sweet potatoes 89, peanuts 48, apples 91, chickens 116, eggs 77, butter 83, milch cows 80, beef cattle 69, veal calves 73, sheep 66, lambs 79, wool 58, hogs 67, horses 45. Practically nothing that the farmer sells can be exchanged for the usual quantity of other things. It is physically impossible for farmers to absorb the products of factories. Farm prices have dropped much more than wholesale or retail prices of farm products."

#### Necessity for General Readjustment

Of course there are other factors than freight charges in the increased cost of farm wagons. It is safe to say that the employes of Deere & Company are all getting higher pay than before the war, and that is true of the workmen in all the industries supplying materials. Deere & Company do not discuss the wages of their own force, but they make a frank statement about general conditions and about their own business, as follows:

> At the beginning of the war farm products went up much faster than the products of labor and for a time the farmer had all the best of it. In the readjustment period after the war, which we are having now, the reverse is true. It is going to take some time to get labor costs readjusted to the new plane of living so that the farmer's purchasing power will be relatively what it was before the war. Things are going to get better from day to day and we are all facing the future with optimism, knowing that this readjustment is going to be a little slow in coming but confident that it will finally work out in the right way.
>
> Please understand that the farmer is not the only one who is bearing burdens now; our own losses in the business this year will be greater than the profits of any year during the war, nevertheless it is our purpose to "carry on" believing that our country is sound and that ultimately all things will come out in the right way.

The situation of this important company is paralleled by a great many industries.

It is understood that the implement business generally this year has been only about one-third of normal. It is hit a little harder than some others not so directly related to agriculture, but directly or indirectly the loss of purchasing power sustained by such an important body as the farmers affects every line of business. It is the fundamental cause of the existing unemployment, and the sooner every class of people, including wage-earners in the town industries, and the farmers themselves, understand that all interests are suffering by it, the better it will be. The situation is complicated and made vastly more difficult by class suspicions, and efforts to obtain class legislation and to put the interests of classes above the common interests. The interests of every class will be best served by a harmonious readjustment of their relations, according to sound economic principles.

## The Unbalanced State of Industry.

For now more than a year we have been endeavoring from month to month to describe the situation and to point out that prosperity would not return until a general readjustment of wages and prices had been accomplished. In the issue of this Letter for December, 1920, we said:

> Manufacturers, merchants, labor leaders, owners of stocks in railroads and industrial companies—everybody in business—are asking how long this depression which is spreading over industry is likely to last. Nobody can tell the length of time, but it is not difficult to name the principal condition necessary to a revival. The prices of what the farming population wants to buy must come down to correspond with the prices of what it has to sell. Until then the state of reciprocity which is necessary to the full employment of labor and general prosperity cannot exist. The equilibrium must be restored. There will be no confidence in the situation until the equilibrium is restored. Merchants are not going to buy goods which they know their customers are unable to buy, railroads will not buy equipment to carry goods which will not be bought, construction work will be at a standstill, enterprise will be dead, until a basis of fair exchange for the products of the industries is reached.
>
> This is not a matter of resolution, resentment, or concerted action. It results from the character of trade relations, from the fact that all business consists of an exchange of services. What one class of producers does not get, it cannot spend. With trade relations out of balance the circulation of goods must be curtailed. * * * Neither the farms nor the towns can buy the products of the other except on a basis of fair exchange, and if the products or services of either are unfairly valued the entire industrial system will be disorganized. Wages and farm products went up fairly well together, and it is a mistake to think that they are not coming down together, for they are tied together by the economic law.
>
> * * * It must be borne in mind that the cost of living is not something imposed upon the wage-earning class from above or from the outside; it is largely dependent upon the wages they insist upon having and their own attitude toward their work. They should not disclaim their proper share of responsibility for the cost of living, or think they can make someone else bear it. Nor can they, any more than any other class, escape their share of the re-

sults of ills and calamities that afflict the world. They may say that they are not responsible for the war or the disorganization of industry which has resulted from the war, but these costs must be borne by society as a whole, with every member bearing some share.

### The World Situation

The war brought about certain changes in the price level, mainly through the necessity that existed for Europe to obtain greatly increased quantities of food stuffs and raw materials from this country. With the war over, grain production in Europe outside of Russia is back almost to the pre-war production. Taking account of the diminished purchasing power of Europe, its demands upon the United States have fallen very greatly. A committee of business men representing the Chamber of Commerce of the United States, headed by Mr. Defrees, of Chicago, its president, has recently made a tour of Europe and issued a printed report upon conditions, in which they say that upon a conservative estimate, "the consumption of 300,000,000 people in Europe has been reduced to not over 30 per cent of what it was before the war." This loss of purchasing power has affected trade and industry all over the world, and men are intellectually blind who think they can ignore such conditions.

That certain farm products, such as corn and cotton, will regain some part of the declines they have suffered, may be expected, but there is no prospect of a return of farm products generally to war prices. Ultimately, Russia will resume her position as an exporter and competitor in western Europe. It is necessary, therefore, to look forward to a readjustment of trade relations between the industries upon a lower level of money values. Any theory that present levels can be maintained for transportation charges and manufactured goods when farm products and raw materials have fallen to pre-war levels is fallacious.

### Attitude of the Labor Organizations

It would save a great amount of agony if these simple economic propositions could be understood. It does not pay to disregard facts. They are neither friendly nor unfriendly to labor; they are the same to everybody, unemotional and unyielding. They may be denounced and heads may be bruised against them, but they will not be disturbed. The wise man takes account of them and adapts his policies to them.

Unfortunately the labor organizations have been unable or unwilling to see that the market for their services no longer exists at the old rates of pay, and that it was not only just to the great agricultural population that wages in the other industries should be reduced, but for the best interests of the wage-earning population itself.

They do not see that the economic law already has forced a great reduction of actual wage-payments, which is what really counts. It means nothing to the wage-earners to have the rates high if there is no work to be had, or work only part time.

Mr. Lee, head of one of the railroad brotherhoods, has given out a statement in which as an argument against wage reductions in the railroad service, he says:

> There are thousands of these men out of work, many of whom have as high as fifteen years' service, because there is no need for them, while thousands of others have to try to live on a few days a month, which is all the railway service requires from them. Let it be understood that no transportation wages are paid unless the time is made.

A similar argument is offered in behalf of very high wage rates for coal miners. It is said that while the rates are high the miners have work only part time, and on the average make only very moderate wages.

These arguments illustrate the importance of paying some attention to economic law. It is impossible to restore prosperity on the basis of double pay for half time work. If the labor organizations insist upon any such policy they will protract present conditions until they have learned the economic truth that an abundance for consumption depends upon ample production. Every man who works for wages should read how the short cotton crop has recently advanced the price of raw cotton and cotton cloth. There is no difference in economic effects between the ravages of the boll weevil and the policy of half-time work in the industries.

### High Wages Force Unemployment

The fact is that wages are so high that they force unemployment, the public not being able to buy the products at the existing level of costs. The story of the farm wagon illustrates the whole situation. If wagons cannot be sold, less coal will be used in the factories and fewer trains will be moved on the railroads. It is probable that much corn will be burned for fuel this winter, which means that less coal will be mined and the railroads will lose the transportation of both coal and corn. Moreover, the high costs of transportation and of mining coal come back to the wage-earner's door, added to the cost of everything he buys.

Broadly speaking, the people in the town industries must sell their goods and services either to the country people or to themselves. It is plain that the former cannot take their usual share at present prices, and the town populations have nothing to gain by holding up the cost of living on themselves. A general reduction of industrial costs would accomplish two very desirable objects, to wit: provide work for the unemployed and lower the cost of living for everybody.

#### The Scarcity of Capital

It is taken for granted as in the interest of the wage-earning class that the well-to-do who are able to continue to pay the present high living costs should be required to do so, but if their living costs were lower they would be able to buy more or invest more (which is the same thing) in either case creating a larger demand for labor.

It is taken for granted that if a rich man embarks upon house-building as an investment, the wage-earning class benefits by making houses cost as much as possible. But if the cost is 100 per cent above normal, the investor's capital will put up only one house instead of two, only one-half as much labor will be employed and the rents which labor must pay will be correspondingly higher. The amount of construction work of all kinds is limited today by the amount of capital available. If the wage-earning class absorbs this available amount in half-time work, it will go idle the other half and lose the benefits that would come with an increase of the productive equipment and facilities that minister to the comfort of all the people.

#### Why Not the Easier Way?

Until these simple economic truths are comprehended, the present slow, grinding, heart-breaking process of readjustment must continue, with millions out of work and many of them gradually eating up the little savings they had made.

After every experience of this kind is over, the wonder is that the inevitable end was not foreseen. The British coal strike last Spring cost the miners over $300,000,000 and the other wage-earners of the country a very large sum through enforced unemployment. The British government contributed $50,000,000 from the public treasury in the final settlement, to help in the temporary adjustment of wages, and lost more than that in declining revenues due to the falling off of business on account of the strike. All of that was clear waste, doing nobody any good. Each party suffered by reason of the losses of the other party. The employing class suffered because the loss of wages impaired the purchasing power of the wage-earning class, and this affected the output of all kinds of industries and reduced the consumption of coal even after the mines had resumed. On the other hand, the wage-earning class suffered through the losses of the employing class, as the latter had less capital to employ in industry and the demand for labor was lessened in consequence. All of these results might have been foreseen, if any account had been taken of economic conditions.

Such experiences bring to mind the reunion of the surviving veterans of the opposing armies of the great battle of Gettysburg, which took place on the historic field upon the 50th anniversary of the battle. They ate and drank and slept together, toasted each other, and told what profound respect they had learned to have for each other, which was all very well for those who survived, but what a pity they did not find out the truth about each other before they fought the battle in which thousands of as good men as the survivors lost their lives.

#### Errors of High Authorities

Of course the wage-earners are not the only people who fail to see that their own interests are best served by a study of mutual interests with other people. Business leaders and statesmen often show the same inability. In the Spring of 1919 British maritime interests wished to recover control of the White Star and other British lines, held by the International Mercantile Marine Corporation, an American company, and were ready to pay a good price for the stocks. The ships were of British registry and the companies, although controlled by American ownership of the stock, were British corporations, subject to British taxation, and since it was evident that the British wanted to regain control of the lines the American owners were willing to sell. It was tolerably clear that if the British could not recover their old ships they would build new ones.

The terms of sale were agreed upon, but before closing the negotiations the officials of the American company thought it proper to submit the transaction to the Government at Washington for approval, inasmuch as the Government was largely interested in shipping. To the surprise of everybody the Washington authorities disapproved of the sale and asked that it be called off. They didn't want any ships to get away from American control. So the sale fell through and the British proceeded to build ships. To make the situation still worse the Allies took all the German ships away from them, thus forcing more construction in that quarter, and now there are so many ships on the ocean that there is no profit in shipping for anybody. Most of the United States Shipping Board fleet is tied up, and the Congress is making appropriations out of the Treasury to pay the expenses of maintenance. The shipping business is overdone.

That story may be supplemented by the equally instructive one about the way the Spa Conference compelled Germany to send more coal to France than France needed, with the result that she sold it in outside markets, thus interfering with regular exports of British coal, contributing to break down the price and bringing about the coal strike, which hurt England much more than the value of all the coal delivered by Germany to France.

We do not say that statesmen are always wiser than workingmen, but that both will find it to their advantage to take account of economic law.

### Labor's Stand for International Peace

The American Federation of Labor, under the leadership of Mr. Samuel Gompers, has taken a very strong stand in favor of Disarmament, or steps for the reduction of armaments. This means presumably that they believe that all disagreements between nations may be. and should be, settled by conference, negotiations and arbitration. It is an intelligent and enlightened view. It assumes that there is a just basis for the settlement of every dispute, according to the principles which every civilized country is interested in having maintained. The same considerations apply to industrial disputes. Every industrial disagreement is subject to settlement upon general economic principles which promote the common welfare. Every industrial contention should be brought to this test. It is just as desirable that these disagreements shall be settled by conference, negotiation and arbitration, without strikes, lock-outs, boycotts or physical violence as that international differences shall be settled by the processes of reason. A strike is a resort to force, no different in principle from a resort to military action.

## The Railroad Controversy.

In discussing the wage situation it is important to bear in mind that many groups of wage-earners have exhibited a conciliatory spirit and have accepted very considerable reductions, but there are other groups who have not done so. The latter accept the benefits of reductions elsewhere but refuse to reciprocate, and their mistaken action inflicts hardships upon the entire community, not excepting thousands of their own number, by forcing them into idleness.

Among those who have pursued this illiberal policy the railroad employes are conspicuous, a fact that is the more surprising because as a group they are men of a high average of intelligence and character, who would be expected to have a quick understanding of the economic relationships involved and also a strong sense of the moral obligations to the public of a group performing an indispensable service.

It is an obvious fact that no single influence is more important in retarding the recovery of industry than the high freight charges which have been adopted for the purpose of enabling the railroad companies to meet the wage-increases, aggregating more than 100 per cent, which have been granted since the beginning of the war. The effect upon bulky commodities, such as farm products is shown by the correspondence above. The effect is vastly more serious because of the fall of prices, as freight charges have become a much larger percentage of the value of the products than they were before. It is authoritatively stated that the increased freight charges account for all the difference between the cost of iron and steel before the war and now.

### The Wage Reduction of July 1st

The Railroad Labor Board in May last ordered a reduction of wages averaging about 12½ per cent, to go into effect July 1st last. In view of the vital relation of railroad charges to all of the industries, and the decline of living costs that had then taken place this reduction was a very moderate one. It left the railroad employes in a better position than they were before the general downward readjustment began. In its relation to wages and prices generally the readjustment of railroad wages at a reduction of 12½ per cent would have to be considered as an advance, for it increased their purchasing power over commodities.

There is plenty of evidence that the brotherhoods were quite willing to accept this reduction, but instead of frankly doing so the brotherhood leaders adopted jockeying tactics not in keeping with the dignity of the Government board with which they were dealing or with the importance of the issue to the public. They proposed to the railroad officials that they would accept the pending reduction if given a promise that no further reductions would be asked for. The officials of the companies properly replied that in view of the public interest in the costs of transportation they did not feel at liberty to make any such pledge. Then the brotherhoods took a strike vote, which is usually interpreted as a vote to back up the chiefs in their negotiations.

### Movement for a Second Reduction

Meanwhile, the public demand for a reduction of railroad charges was increasing. The railroads had been granting reductions in specific rates, to relieve situations where the new rates obviously caused excessive hardship, until according to the statement of Mr. Daniel Willard, President of the Baltimore & Ohio, approximately one half of the income from the last rate increase was voluntarily surrendered. The presidents met again, and after the conference, on October 14, gave out a statement of which the opening paragraphs were as follows:

> At a meeting of the Association of Railway Executives it was determined by the railroads of the United States to seek to bring about a reduction in rates, and as a means to that end to seek a reduction in present railroad wages, which have compelled maintenance of the present rates.

An application will be made immediately to the United States Railroad Labor Board for a reduction in wages of train service employees sufficient to remove the remainder of the increases made by the Labor Board's decision of July 20, 1920 (which would involve a further reduction of approximately 10 per cent), and for a reduction in the wages of all other classes of railroad labor to the "going rate" for such labor in the several territories where the carriers operate.

The foregoing action will be taken upon the understanding that concurrently with such reduction in wages the benefit of the reduction thus obtained shall, with the concurrence of the Interstate Commerce Commission, be passed on to the public in the reduction of existing railroad rates, except in so far as this reduction shall have been made in the meantime.

This announcement of the railroad presidents looking to a second reduction of wages affords no reasonable basis for a strike, if the brotherhoods intend to give any consideration to the machinery provided by law for the settlement of such questions. The presidents announced their purpose to proceed in the regular manner provided by law to present their request to the Railroad Labor Board for its approval. There was not the slightest reason to suppose that they intended to take action without the approval of the Board.

For the brotherhood executives to call a strike because another reduction was to be proposed, must be regarded as a very erratic and unjustifiable proceeding to say the least. It looks like going a long way to meet trouble, and to make themselves aggressors, not to speak of the contemptuous treatment of an agency created by law to deal with just such situations.

**Other Reasons**

Three specific reasons are given by Mr. Lee for calling the strike, as follows:

1. The wage reduction of July 1.
2. Proposed further reductions.
3. Proposed elimination of rules, which would mean still further reductions.

It appears from this that the only offense that has been actually committed is the wage reduction that went into effect July 1, and which standing alone they have indicated their willingness to accept.

The character of some of the rules and regulations which Mr. Lee suspects may be in danger of revision may be judged by the following extract from a recent speech by Governor Henry Allen of Kansas. He was discussing the "make work" policy so often pursued by the labor unions, and referring to the great increase of employes on the railroads under government management. He said, further:

Recently I examined the new regulation of crafts in the railway business. One sample is sufficient to show the extraordinary effect that has followed the illogical expansion of the personnel. This typical case relates to the removing of a nozzle tip from the front end of a locomotive. Mechanically it is as simple an operation as the unhitching of a team of mules, yet here is the elaborate provision of the craft's regulation for performing this task. It is necessary to send for a boiler maker and his helper to open the door of the boiler, because that's a boiler maker's job. Then you must send for a pipe man and his helper to remove the blower pipe, because that is a pipe man's job. Then you must send for a machinist and his helper to remove the nozzle tip, because that is a machinist's job. Thus they have used three master mechanics and three helpers to perform a simple task which in the pre-war days was performed by a handy man around the place who was called a helper. Has it brought prosperity to the railroad men? More railroad men are out of employment in the United States today than at any other time since the administration of Grover Cleveland. The doctrine of doing as little as you can for as much as you can get has killed the goose that lays the industrial egg.

**Utterances of Brotherhood Chiefs**

The utterances of the brotherhood chiefs in discussing the strike have not been such as would tend to sustain the reputation that the heads of these organizations have borne in the past for intellectual calibre and sound judgment. Thus Mr. Stone, of the engineers is quoted as dismissing the suggestion of gains to the public by rate reductions with the comment that "the middlemen would get them all."

Mr. Lee asks:

Wherein is there justification for a demand that proposes to compel transportation employes to work under unsatisfactory conditions that do not include every other class of employers and employes?

If he as a railroad man does not know the difference in the eyes of the law between the railroad business and any ordinary business or occupation not vital to the life of the community, he is a long way behind the times for a man who holds the position he does in relation to railroad service. The owners of railroads had to learn that lesson long ago.

The chiefs have given out some amazing interviews upon the financial affairs of the roads, the machinations of Wall Street, etc., which it is charitable to presume were prepared for them, and into the truth of which they had never had opportunity to examine.

## The Larger Railroad Problem.

The railroad problem does not consist entirely of the issue raised by the brotherhoods, although that is of fundamental importance. It involves not only the questions of proper pay for the employes and of the right of the employes to deprive the public of railroad service, but also the question of compensation for capital employed in the railroad service, and whether the roads shall be owned and operated by the government or by private parties.

These are large and grave questions, calling for a high degree of competency in the electorate. They must be passed upon with the kind of vision and judgment required of business men in the management of large affairs. Action should be guided upon economic prin-

ciples, with a view to aiding industry and serving the general interests, and with an understanding that those policies which serve society best will serve every class and division of society best in the long run.

### The Regulation of Rates and Wages

In this country the public depends upon private capital to supply railroad service. It must continue to do so, unless the railroads are taken over by the government, and experience with government management of railroads, government management of shipping and government management of every kind, has proven that transportation service will cost more under government management than under the management of private companies. If we depend upon private capital, then we must allow it to earn enough to make investments in railroads fairly comparable in return to other investments. It is to the interest of the public that the capital invested in railroads shall have a fair return. It is good policy from the standpoint of the public to allow such a return—a necessary policy because otherwise the railroad service will deteriorate.

And so on the other hand it is both right and good policy to pay wages that will attract capable and trustworthy men to the railroad service.

The necessity for fair returns upon capital and fair wages for employes can hardly be the subject of argument, but how is the public to determine what is fair in both of these cases? Obviously it must be done through some public agency—a body of men representing the public. It is necessary to have organization—government—in order to carry out all social aims, and to put confidence in the agencies of government and sustain them. They are not infallible, and they are answerable to the public for the manner in which they discharge their responsibilities, but criticism of them should be well-informed and directed to specific faults of administration. It is a symptom of immaturity and social incompetency for people to raise a great outcry against a court or an administrative body simply because its decisions or actions run counter to what is popularly desired at the time. It is like the outcry of schoolboys against an umpire.

Two such Boards have been established to deal with the railroads and railroad employes —one the Inter-State Commerce Commission and the other the Railroad Labor Board.

### The Valuation of Railroads

In 1913 because of the differences of opinion existing about the actual value of the railroad property, Congress directed the Inter-State Commerce Commission to undertake a detailed survey and valuation. The Commission established a subordinate organization for that purpose at the head of which was placed Mr. Charles A. Prouty, for many years a member of the Commission, and who commanded the confidence of that body. It may be added that Mr. Prouty had been throughout his service on the Commission one of the most aggressive champions of greater powers for that body, and one of the members in whom the critics of the railroads always had great confidence. Mr. Prouty virtually organized the valuation force, consisting of engineers and accountants.

The work of valuation is well advanced, and when the Esch-Cummins act went into effect, and it became necessary for the Commission to place a valuation upon the railroad property of the country as a basis for rate-making the Commission used the data that it had gathered as a means of reaching a tentative estimate.

It should be understood that this valuation for rate-making purposes is not based upon the amount of bonds and stocks outstanding, and therefore that the talk of "watered stock" in this connection has no foundation. This was definitely set forth by Mr. Edgar E. Clark, then chairman of the Inter-State Commerce Commission, before the Senate Committee on Manufactures last year when it had under consideration the Calder bill for the regulation of the coal industry. The question of railroad rates being up, the valuation of the railroads adopted by the Commission became a subject of inquiry by members of the Committee, as follows:

Senator Reed: How did you get at the value of the property? What is the general basis? Is it stocks and bonds? Is it physical value?

Mr. Clark: Stocks and bonds were not considered at all. The question of capitalization was not thought of. It is the fair value as closely as could be estimated and approximated at that time of the physical property which was devoted to the transportation service. We had a mass of information gathered in our valuation work, which is not in complete form to be given out in the form of reports and findings, and the transportation act specifically authorized us to avail ourselves of that information. We availed ourselves of all the information we could.

Senator Jones of New Mexico: Does that figure ($18,900,000,000) include the percentage arising from the increase in the value of materials and property in recent years, since the roads were constructed.

Mr. Clark: No, it does not attempt to equate the values. The principal figures that we used in our values are as of 1913 and 1914. We fixed the price units on a given railroad valuation as of June 30, 1914. Those price units we think were accurate, and they were based on experience of a series of years in the past up to that date, and the prices then prevailing, for the determination of what was up to that time the normal price for fixing the value of a box car, a piece of track or anything else. If, on a given railroad, we had made our figures on the basis of the valuation established, say, of June 30, 1913, we then computed the value of what the railroad had at that time. All that had been put in since that time, added, has been computed on its cost.

Senator Jones: Then the valuation which you have put upon the railroads is based more largely on cost than on present value, is it not?

Mr. Clark: Yes, sir. It is based on three different values that we determined. First, the cost of reproduction as of the date of valuation, then upon the cost of reproduction less depreciation, which represents the depreciated condition of the property as of that date, and then the actual cost to date.

Senator Pomerene: $18,900,000,000 was the best judgment of the Commission after going through all the data that had been gathered during all these years?

Commissioner Clark: Yes, sir.

Senator Pomerene: That should set at rest the charge that there is $9,000,000,000 of water in the railroads now.

That statement should be conclusive as to the basis of the valuations, particularly so far as the brotherhoods are concerned, for Mr. Clark formerly was head of the Order of Railway Conductors, resigning to become a member of the Inter-State Commerce Commission, to which he was appointed by President Roosevelt. He amply demonstrated his qualifications for the position by his service on the Board, where he rose to the Chairmanship, which he held at the time the valuation was adopted. Probably no member of the body has been more influential in recent years than Mr. Clark. It does not reflect, therefore, in any way upon the original appointment to surmise that in making it President Roosevelt was influenced in some degree by a desire to have a man on the Board who would understand the point of view of the employes, and in whom they would have confidence.

There is not the slightest reason why the railroad brotherhoods should refuse to accept the statements and judgment of Mr. Clark, but they seem to have preferred to employ Mr. Plumb to prepare figures to suit their purposes.

#### Supervision Over Capitalization Since 1907

In this connection it is worth noting that since 1907 the Inter-State Commerce Commission has had supervision over railroad book-keeping, and under its regulations no additions to the property investment account have been permitted except by the approval of the Commission and against actual capital investments. The property account on December 31, 1907, was $13,030,344,328 and on December 31, 1919, $20,124,908,615. Here then was about $7,000,000,000 added to the account under the supervision of the Commission in twelve years. The mileage of the roads increased in that time from about 236,000 miles to about 260,000 miles, or about 10 per cent. It is true that most of the capital expenditures in recent years have been for the improvement of existing lines, but with the Commission approving capital investments amounting to $7,000,000,000 in the last twelve years, is it probable, as asserted by critics, that the total investment in the roads is not now over $12,000,000,000? This would mean that the total cost of 236,000 miles of railroads up to 1907 was only $5,000,000,000, or less than $15,000 per mile, including terminals, equipment and working capital.

#### The Esch-Cummins Act

The Esch-Cummins law instructs the Board to adjust rates so that as closely as may be they will yield a return of 5½ per cent upon the actual aggregate value of railroad property, with a possible allowance of ½ per cent more to apply upon investments in non-productive improvements, such as track elevation, etc., which are in the public interest but do not directly increase earnings.

There is a great protest against the law upon the claim that it makes railroad investors a preferred class, by giving them a guaranteed return where no other business has a guaranteed return. This is a gross misrepresentation of the facts. The railroad business is in a class by itself, as a business in which charges and earnings are restricted by law. Government regulation of railroads is primarily for the purpose of limiting their charges to rates no higher than is required to yield a fair return upon the capital actually invested, 5½ per cent being named. If earnings rise above that figure, the charges are to be lowered.

#### A Rule Must Work Both Ways

It is fundamental that wherever earnings are thus specifically limited to an ordinary interest return some compensation must be given in the way of assurance of regular returns. If an investor may not participate in the ordinary business opportunities for profit in good times he should be protected from the losses of bad times. The regulation of railroad charges cannot be based upon the theory that capital invested in railroads shall have only 5½ per cent in good times and nothing in bad times.

That kind of a policy will not be beneficial to the public, because the railroads cannot be sustained on that basis. It is an attempt to get something of value for less than it costs, and of course it will fail. Any policy is short-sighted which will not maintain the railroads in position to obtain from investors the sums that are constantly needed for improvements—sums amounting to hundreds of millions of dollars per year.

#### Five and One-Half Per Cent as a Fixed Return

Five and one-half per cent upon a pre-war investment is not a high return. In purchasing power it is very much less than before the war. The cost of living has gone up for the railroad stockholders as for other peo-

ple. **Railroad employes had their** wages doubled **because the cost of living** had risen, and fight **vigorously against reductions** now that the cost of living has declined, but the stockholder is allowed no more, and the earnings available for dividends are very much less.

It is a well-known fact that 5½ per cent is below the going rate at which money loans today on good mortgage security, with an equity of 40 or 50 per cent to protect the lender. There is no such equity to protect railroad investments, and many railroads turn out to be poor investments. The recent history of Western Pacific and Denver & Rio Grande are cases in point.

There is no guaranty of 5½ per cent or undertaking on the part of the Government to make up any deficit below that rate. The consolidated earnings of all the properties for the first six months of 1921 were at the rate of 1.8 per cent per year, and for the full year probably will not exceed 3 per cent. The law names 5½ per cent as a return which the companies will be allowed to make if they can. It is a strange perversion to represent it as favoring railroads above businesses which have no restriction upon their earnings.

#### Market Value of Securities

One of the arguments by which critics seek to discredit the valuation of the Commission is that it is much in excess of the present market value of the outstanding bonds and stocks—it is said $7,000,000,000 above. We do not know whether these figures are correct or not, but it is true that railroad securities are very much depressed at this time. If, however, that is a good reason for scaling down payments upon them, the argument will apply to government bonds as well and justify paying them off at 85 to 90 cents on the dollar.

The reason in common for the depression of Liberty bonds and railroad securities has been the general state of the money market and the scarcity of new capital, owing to the great governmental expenditures, high taxation and high cost of living. Current interest rates upon new security issues have been much above the rates on old issues, including the Liberties, causing holders to sell the latter to buy the former. Many holders have found it necessary to sell in order to pay debts or living expenses. As the yield upon railroad stocks and bonds did not increase with the cost of living, the holders found their incomes diminishing in purchasing power, and market values declining.

The stock of the Pennsylvania railroad which has no water in it, was paying 6 per cent before the war. The purchasing value of those dividends became relatively less with the general rise of wages and prices, and last Spring the rate was reduced to 4 per cent. Naturally the market price of the stock has declined.

The preferred stock of the Chicago, Milwaukee & St. Paul company was sold to the public by the company years ago at par, $100 per share. Dividends have been suspended upon it, and the stock is changing hands in the market under $40 per share. There are people who seriously argue that this value should be adopted as the basis for rate-making in the future. They are too impatient; if the stock goes without dividends a few years longer it may decline to $20, or to the value of Russian government bonds.

It is true that railroad securities have been more depressed than Liberty bonds, and one reason is that up to this time there has been no nation-wide campaign to discredit the latter. It may come yet. If the idea should become prevalent that the Liberty bonds have passed into comparatively few hands, an agitation in favor of scaling them, or scaling the money in which they are payable, might gain considerable strength among the same element that has sought for years to discredit railroad securities.

#### Influence of Bankers

The ownership of railroad securities is with investors rather than with bankers, although savings banks are large holders of railroad bonds. Investment bankers are agencies through which a great many railroad securities have been distributed to the public. For the services rendered in accomplishing such sales the bankers have received commissions. No better way of distributing securities to the public than through the organizations experienced in such work has been found. Even the non-Partisan League administration of North Dakota has recently found it advisable to engage such services. Through the relationship thus established with security-holders it has frequently happened that the bankers have been called upon to serve upon railroad directorates and assume some responsibility in the management of railroad affairs. They have acted in **good faith, representing the interests en**trusted to their care, and the intimations that their influence has been harmful to the roads or the public belong in the category of suspicious and ignorant surmises.

The Pennsylvania railroad is owned by 140,000 stockholders of record, and many thousands more participate in supplying the capital it employs, through the bonds held by savings banks, insurance companies and numerous trust funds. It would be highly desirable to

have the ownership of all the roads distributed in like manner, and particularly among the railroad employes. Many of the companies have made special efforts to place their stock among their own employes, and all would be glad to afford helpful facilities. It is probable that the number of people interested in railroad bonds and stocks exceeds the number of railroad employes, and they are entitled to the same consideration at the hands of the public.

## Distribution of Income.

We gave two months ago a table from Professor Friday's book upon Profits, Wages and Prices, showing the distribution of wealth added by the processes of manufacture, as compiled by him from the reports of corporations to the Government in the year 1917. That table is instructive, but inasmuch as it dealt only with the "value added" it does not give a complete picture of the distribution of the gross income of employers engaged in industry.

The opinion is often expressed that employers should continue to operate even though they are not finding sale for their products, in order to give employment for labor. The practicability of this policy may be judged from the following figures given out by the General Electric Company, showing the distribution of its income over a period of three years, and those the most prosperous years of its history. The figures show the average distribution of each dollar of gross receipts in the years 1918-19-20:

| | Cents |
|---|---|
| Wages and salaries (paid to an average of 73,900 employes) | 41.7 |
| Materials, supplies, depreciation, operating charges and losses | 40.6 |
| Taxes | 5.3 |
| Surplus (used for enlarging plants, inventories and working capital) | 4.7 |
| Dividends to all stockholders (average number, 21,461) | 4.0 |
| Transportation, telephone and telegraph | 2.5 |
| Interest on borrowed capital | 1.2 |
| Total | 100.00 |

This statement will show the necessity for a continuous inflow of money to keep the business in funds to operate. The costs of operation took over 91 per cent of the gross receipts as fast as they came, and the gross receipts aggregated hundreds of millions of dollars. It is impossible for such an organization to operate long without selling its products. The figures also show how small is the possibility of increasing wages at the expense of profits, even if all of the latter were devoted to that purpose in the case of one of the most prosperous companies in the country.

# World National Debts in 1921

**Nearly Ten Times as Much as at the Beginning of the War**

*By O. P. Austin*
***Statistician, The National City Bank of New York***

World national debts in 1921 are nearly ten times as much as at the beginning of the war. The tabulation herewith presented shows the debts of one hundred principal countries and colonies of the world in the year preceding the war, 1913, and in the year of its close, 1918, also figures for 1919, and at the latest available date, 1921, wherever possible and in other cases 1920. The totals when transformed into United States dollars at the par value of the currencies of the countries named advanced from 43 billion dollars in 1913 to 205 billions in 1918. the closing year of the war, 295 billions in 1919, the first full peace year, and 383 billion dollars at the latest date for which figures are now available, indicating that the total of national indebtedness at the close of 1921 will approximate and perhaps exceed 400 billion dollars against the 43 billions of 1913.

The interest charges on these national debts which amounted to over 1½ billion dollars per annum in the pre-war period are now approximately 15 billion dollars per annum, though the fact that most of the governmental borrowings during and since the war have been drawn from their own people suggests that a larger share of the interest payments is now distributed at home than in the pre-war years when many of the national loans were placed in foreign countries.

The "debt habit", which was forced upon many governments during the war period, has been continued in certain countries since its close by the fact that governmental expenditures have been permitted to exceed the income from taxation, and with the creation of big annual deficits the aggregate of debts has continued to expand even down to the present time and in a very large proportion of the one hundred countries named the debt figures of 1920-21 materially exceed those at the close of the war.

This "deficit habit," caused in certain countries by the decrease in purchasing power of the currency in which expenses were estimated and taxation levied, has also resulted in further increases in the world's total of paper currency, supplied by the great banks of issue to their governments to enable them to meet the recurring deficits, and a tabulation of world currencies at the present time would likewise show large increases over those existing at the termination of the war.

All debt figures in the tabulation here presented have been transformed into United

States currency at the pre-war normal value of the respective currencies—the "par of exchange"—since the fact that the obligations in question are payable at dates many years distant would render impossible any other method of estimating their value.

Attention is especially called to the fact that statements of national debts for a given year are more distinctly "subject to revision" than those relating to other subjects, by reason of the fact that debt statements of most of the important countries are issued at frequent intervals—monthly or quarterly—and the official figures issued at a given month or quarter of the year often differ in some degree from those officially issued at a later date of the same year. The figures herewith presented are wherever possible drawn from official sources and in other cases from standard authorities, though those for 1921 are in certain instances necessarily based upon reports appearing in the economic journals and daily press.

### NATIONAL DEBTS OF THE WORLD,

In United States Dollars, Reduced at Normal (Pre-War) Value of the respective currencies.
(000,000 omitted)

| | 1913 Million Dollars | 1918 Million Dollars | 1919 Million Dollars | 1921 Million Dollars |
|---|---|---|---|---|
| Argentina | $732 | $866 | $576 | $758 |
| Australia | 81 | 1,382 | 1,586 | 1,956 |
| Aust. States | 1,349 | 1,824 | 1,864 | k 1,859 |
| Austria (j) | 2,152 | 15,807 | 16,910 | 15,834 |
| Algeria | 35 | g 35 | g 35 | g 35 |
| Barbados | ........ | 2 | 2 | k 2 |
| Belgium | 722 | i 1,902 | 1,902 | 4,670 |
| Belgian Congo | 63 | i 67 | 67 | i 67 |
| Bolivia | 19 | 26 | 27 | i 27 |
| Brazil | a 664 | 1,145 | 1,133 | 969 |
| Brit. East Africa | 1 | 2 | 2 | k 2 |
| British Guiana | 4 | 5 | 5 | k 5 |
| British Honduras | 1 | 1 | 1 | 1 |
| Brit. Colonies (S) | 8 | 12 | 13 | 14 |
| Bulgaria | a 135 | 900 | 1,432 | i 1,432 |
| Canada | 483 | 1,863 | 2,250 | 2,345 |
| Ceylon | 30 | 27 | 24 | i 24 |
| Chile | 210 | 228 | 231 | 240 |
| China | 969 | e 1,061 | 1,886 | i 1,886 |
| Chosen | 22 | 47 | 53 | k 69 |
| Colombia | 24 | 23 | 23 | 39 |
| Costa Rica | 16 | f 20 | 30 | i 30 |
| Cuba | c 67 | 83 | 84 | 87 |
| Cyprus | 1 | 1 | 1 | k 1 |
| Czecho-Slovakia | ........ | ........ | k 7,000 | 9,135 |
| Denmark | 96 | 162 | 210 | 215 |
| Dom. Republic | c 13 | 14 | 13 | k 13 |
| Dutch E. Indies | no data | e 92 | 170 | k 149 |
| Ecuador | 18 | 26 | 28 | l 28 |
| Egypt | 459 | 460 | 469 | k 461 |
| Finland | 34 | 120 | 357 | 382 |
| France | 6,346 | 30,400 | 40,000 | 51,000 |
| French Col. (S) | a 211 | 579 | 580 | i 580 |
| Fr. Indochina | 47 | g 47 | g 47 | g 47 |
| Germany | 1,194 | 39,200 | 48,552 | 71,000 |
| German States | 3,855 | f 4,341 | 4,500 | k 8,300 |
| German Colonies | 32 | g 32 | g 32 | g 32 |
| Gold Coast | 12 | 16 | 16 | k 16 |
| Greece | 207 | 248 | 469 | 812 |
| Guatemala | n 18 | f 16 | 17 | 18 |
| Haiti | c 30 | 24 | 32 | i 32 |
| Hawaii | e 8 | 9 | 9 | k 11 |
| Honduras (q) | 91 | 29 | 28 | k 30 |
| Hong Kong | 7 | 7 | 7 | k 7 |
| Hungary | j 1,731 | 8,514 | 9,412 | 14,200 |
| Iceland | 47 | 51 | 53 | i 53 |
| India, British | a 1475 | 1,546 | 2,310 | 2,263 |
| Italy | 2,921 | 12,000 | 13,102 | 18,650 |
| Jamaica | 18 | 18 | 18 | k 19 |
| Japan | 1,242 | 1,246 | 1,300 | 1,713 |
| Jugo-Slavia | r 174 | 546 | 705 | k 705 |
| Latvia | ........ | ........ | 11 | i 11 |
| Leeward Islands | 1 | 1 | 1 | k 1 |
| Liberia | c 2 | 2 | 2 | 2 |
| Lithuania | ........ | ........ | 10 | 10 |
| Luxemburg | b 2 | f 9 | k 25 | k 25 |
| Madagascar | 18 | i 20 | 20 | i 20 |
| Malay States | | | | |
| Federated | 6 | 8 | 8 | k 8 |
| Other | ........ | 2 | 2 | k 1 |
| Mauritius | 6 | 6 | 6 | k 6 |
| Mexico | a 222 | 377 | 409 | o 282 |
| Morocco | 60 | 80 | k 103 | k 103 |
| Netherlands | c 462 | 652 | 981 | 1,046 |
| Newfoundland | 27 | 35 | 42 | i 42 |
| New Zealand | 438 | 734 | 856 | 978 |
| Nicaragua | 9 | 16 | 10 | 5 |
| Nigeria | 40 | 41 | 41 | 57 |
| Norway | 97 | 197 | 268 | k 314 |
| Nyasaland | ........ | 15 | 15 | i 15 |
| Panama | .3 | 7 | 7 | 3 |
| Paraguay | 13 | 14 | 9 | 9 |
| Persia | 32 | 41 | 45 | 46 |
| Peru | 34 | 28 | h 28 | k 29 |
| Philippines | 12 | f 20 | 20 | 21 |
| Poland | ........ | ........ | k 36,650 | 69,000 |
| Portugal | 948 | 1,290 | 1,294 | 1,880 |
| Porto Rico | 7 | 8 | 9 | k 10 |
| Roumania | 317 | 1,022 | 4,100 | 5,270 |
| Russia | c 4,538 | f 22,774 | f 22,774 | f 22,774 |
| Salvador | 10 | 11 | 14 | 18 |
| Siam | 28 | 33 | 33 | 36 |
| Sierra Leone | 6 | 8 | 8 | k 8 |
| Spain | 1,814 | 1,661 | 1,986 | 2,335 |
| Straits Settlem'ts | 34 | 68 | 72 | i 72 |
| Sweden | 161 | 258 | 298 | 340 |
| Switzerland | 23 | 205 | 341 | t 370 |
| Trinidad | 5 | 8 | 1 | k 1 |
| Tunis | 45 | d 69 | d 69 | d 69 |
| Turkey | 676 | 2,000 | 2,310 | l 2,310 |
| Uganda | 1 | 1 | 1 | k 1 |
| Union S. Africa | 573 | 781 | 801 | k 847 |
| United Kingdom | 3,486 | 28,613 | 36,401 | 37,910 |
| United States | 1,029 | 17,005 | 25,234 | 23,922 |
| Uruguay | 138 | 164 | 163 | 172 |
| Venezuela | 35 | 29 | 27 | 41 |
| Windward Islands | 3 | 1 | 1 | k 1 |
| Total | 43,362.3 | 205,396 | 295,070 | 382,634 |

a 1912, b 1910, c 1914, d 1915, e 1916, f 1917, g 1913, h 1918, l 1919, k 1920. j Includes share of Austro-Hungarian debt. n Exclusive of internal debt not available. o Statement of Minister of Finance, June 30, 1921. q Exclusive of arrears of interest stated in 1921 at $108,000,000. r Serbian debt 1913. S Exclusive of those separately named. t Exclusive of railway debts stated at $430,000,000.

1812

1921

# Economic Conditions
# Governmental Finance
# United States Securities

New York, December, 1921.

## The International Conference.

THE outstanding event of world importance during the past month was the proposal of Secretary Hughes in behalf of the United States to the international conference upon the limitation of armaments. It was so direct, startling and conclusive in its provisions as to settle at the outset all doubts as to the purposes of this country, and commanded expressions of approval from all quarters. It dispelled the atmosphere of skepticism which commonly surrounds diplomatic conferences, and forthwith established confidence, that results of great importance would ensue.

The response that has been given by the delegates and by all organs of public opinion, not only in the countries represented but elsewhere, has afforded convincing evidence that public opinion the world over is ready for decisive action upon the subject of war and preparations for war. The people of all countries know that it is madness in the present state of industry and finance, and with the existing burdens of taxation, for the governments to go on expending vast sums upon armaments which in the end only balance each other, and increase rather than reduce the probability of another war.

It may be hoped, moreover, that the financial relief directly achieved may not be the only beneficial result of this effort to work together for common gains. The idea that the nations have a real community of interests, and that they not only have nothing to gain by making war on their neighbors, but that industrial depression or prosperity in one country inevitably reacts upon other countries, contains wonderful possibilities for the general good. The world has never before had such a convincing demonstration of this truth as it is witnessing at the present time. When that truth is fully assimilated, and the people of every country understand that an intelligent policy for the promotion of their own interests requires that like consideration shall be given to the interests of other countries, there will be no need of international agreements to prevent war.

Senator Schanzer, representing the government of Italy at the Conference, stated the situation very effectively in his response to the proposal by Secretary Hughes. He said:

> "Modern civilization is an economic civilization and the modern world in spite of the distances and natural barriers, cannot be conceived except as a single great economic system. This economic system has been shattered by the war. It is necessary now to revise it and get it into motion again. We think that your proposal is the first effective step toward giving the world a release of such nature as to enable it to start the work of its economic reconstruction."

And when such knowledge of common interests prevails in international relations there is every reason to believe that it will prevail in every day industrial relations as well. The principle is the same throughout all social relations. The latter are naturally and essentially cooperative, the interests that all groups and classes have in common being vastly more important upon all sides than the interests which seem to be in conflict.

## General Business Conditions.

Industry and trade in general continued during November to make and hold the gains made in October, although there is evidence that part of this gain was seasonal and is now falling off. The unusually warm weather in all parts of the country during the latter part of November affected retail trade to a considerable extent. Holiday buying, however, is beginning to assert itself and will serve in some measure to compensate for the falling off in seasonable goods at this time.

The fundamental difficulty that has existed all through this year, that is, the disparity between the price of farm products and all raw materials and the price of manufactured goods, continues to hamper the return of industrial activity. Half of the population continues to have its buying power so seriously curtailed that any general improvement in trade while this condition obtains is out of the question. In fact, the prices of some of the principal farm products made new lows during the past month, although showing an encouraging rally at the close.

### The Railroad Labor Situation

The settlement of the railroad strike was not obtained under conditions which give much promise of permanency. The railroads have all given notice of an application to the Railway Labor Board for further wage reductions, but the Board has stated that these requests will not be considered until after many questions affecting working conditions can be decided. It is not expected that these decisions will be ready before the middle of next summer and there is an insistent demand from producers, manufacturers, shippers and consumers all over the country for a more prompt adjustment of these matters.

This situation illustrates the inadequacy of the machinery provided for the determination of rates, wages and working conditions on the nation's carriers. The roads have announced a reduction in all rates on agricultural products amounting to 10 per cent, to take effect at once. This is a hopeful step in the right direction, but the companies gave notice that the decreases will have to be suspended at the end of six months if wage reductions are not granted. It should be clear by this time that the railroad wage situation cannot be viewed or discussed solely from the standpoint of the roads and their workers. It profoundly affects the business and the prosperity of the country and cannot intelligently be viewed or considered without the effect on all lines of industry and the cost of living receiving due attention.

## Influence of Supply and Demand Upon Wages.

It is nothing new to have the law of supply and demand pronounced a back number. Pronouncements of that kind have been appearing with great frequency for a long time, but it has always turned out that the law was working where the observers were not looking and in ways they did not understand. It may be suppressed for a time in one place, but it is like water on its way to the sea, it gets there eventually, no matter how much its course may be hindered.

The Committee on wages of the American Federation of Labor recently made a report to the Executive Council which contains the following:

> "The law of supply and demand has long since ceased to function in wage fixing, except under exceptional conditions, and the most acute suffering from arbitrary imposition of unscientific wage theories is found in industries where there is no organization of the workers, and where the voice of the employer constitutes final authority from which there is no appeal."

These views come quite naturally from men who are engaged constantly in contentions over money wages, and who are judged as successful or not according to the wage rates they are able to win. They are so close to wage rates that they see nothing else, but wage rates are not all of the wage question. The fact is that there never was a clearer demonstration of the impossibility of defeating the law of supply and demand than is afforded by the high wage rates and high state of unemployment existing in this country today.

The committee takes no account of the necessity for balanced relations between the industries or of the purchasing power of money wages, and unfortunately that has been true of many labor leaders in the present situation. The labor organizations have developed great power, largely by the aid and sympathy of the public, but they are using it in this crisis for obstructive purposes—to prevent the natural readjustments between the industries that are necessary to afford full employment for their own members. They are making the price of everything into which their labor enters so high that millions of consumers are unable to buy. It may appear that they are defeating the law of supply and demand by maintaining wage rates, but the law is having its way in the actual volume of wage payments. Wages are far from being maintained for the wage-earning population as a whole. That body as a whole would be better off with lower wage rates and more employment, and even those who now have employment would be compensated by the lower living costs. With such staples as flour, sugar, coffee, rice, meats and butter much below the prices of last year, liberal wage reductions can be made without reducing the standard of living, and they would accomplish still further reductions in the cost of living. It is evident that the balance must be restored before general prosperity can be regained.

### Economic Law Governs

The law of supply and demand aided the wage-earners to get the wage advances made since 1914. It is impartial in its operations and irresistible in its rulings. Employers are no better able to defeat it than wage-earners. Early in this depression it was said that the price of iron and steel was so completely controlled that the industry was immune from extreme fluctuations and yet prices of iron and steel products on an average have fallen next to the products of agriculture, and when out-of-pocket costs are considered scarcely less than these.

The greatest gains to the wage-earning class have always come, in obedience to the law of supply and demand, when business was prosperous, capital was earning good returns and the accumulations were being invested in the enlargement of industrial works, thus creating new demands for labor. It is impossible for an industry to grow and attract labor to it without increasing wages. The automobile industry has been an example of one that has

grown rapidly, and in order to supply itself with labor has been obliged to pay above other industries. It never has been a unionized industry.

Individual employers might like to reduce wages, but anything like a general conspiracy to reduce wages for the purpose of increasing profits would be defeated by the very fact that profits were increasing. The competition of employers to enlarge their operations and employ their new capital would induce them to bid for labor. Not a dollar of the new capital could be put to any use without employing labor. Wage advances inevitably accompany capital accumulations, and on the other hand the greatest hardships to labor are experienced when capital is suffering losses, or, where, as in Russia the owners of capital are looted and industry is disorganized and prostrate. All schemes for arbitrarily increasing wage-rates come to nothing when there is no demand for labor.

## The Money Market.

The money market has made but little response this fall to the usual seasonal demands, as the general tendency to liquidation has been releasing funds in sufficient amounts to meet them. Member bank loans have increased slightly, but the aggregate discounts of the Federal Reserve banks are lower than in August. There was a moderate outflow of funds from New York in September, October, and the first half of November, but of late the flow has been this way. The western and southern Federal Reserve banks which have been borrowing of the Boston, New York and Cleveland banks, are now reducing this indebtedness, and on the 16th it was down to $13,900,000.

The progress of banking liquidation is much more apparent in the condition of the reserve banks than in that of the member banks, as the latter naturally use the first free funds they get to reduce their own borrowings. Thus, while the aggregate of earning assets for all the reserve banks declined from $3,306,000,000 on November 19, 1920, to $1,482,000,000 on November 16, 1921, the aggregate earning assets of the member banks have declined in the same time only about 14 per cent.

The reduction in the holdings of the reserve banks of course makes a very great improvement in the reserve position of the banking system. The reserve banks are again becoming what they were intended to be, institutions with resources in reserve, able to support the entire banking situation in an emergency. Their reserve percentages are in marked contrast to what they were a year ago, being 68.3 per cent on November 16, against 39.1 per cent on November 19, 1920. The present figures look very high as compared with the former requirements of the national banking system, but it must be remembered that these reserves are calculated only upon the direct liabilities of the reserve banks while constituting practically the only reserves against the liabilities of all the banks in the country.

### Progress of Liquidation

Liquidation has gone far with the eastern reserve banks, because they serve the industrial and trading communities, which have been running light and working down stocks of goods and materials. The western reserve banks have liquidated to a much less degree, on account of the great fall of farm products, and also because indebtedness in the west was heavier in proportion to current assets. A manufacturing concern usually has more working capital in proportion to the volume of its business than a farmer.

The active market for investment securities aids in the liquidation of the eastern banks, as houses with strong credit are able to put out issues of bonds or notes as a means of paying off bank loans. Instances of this kind are of daily occurrence, and are very helpful in clearing up the situation. All such developments are a part of the process of getting back to free and liquid banking conditions.

The activities of the War Finance Corporation are giving a considerable degree of relief to banks in the agricultural sections, using funds made available by appropriation from the United States Treasury. Of course the funds must be replaced in the treasury by borrowing in the public market, which amounts to a funding process similar to that described above, except that it is accomplished by the aid of a governmental agency instead of by the direct market borrowing of the parties interested.

As the member banks get themselves paid out of the reserve banks and have free funds for use, competition develops and the tendency is for interest rates to weaken. Six per cent is still the common rate to customers in this market, with a little better demand for commercial paper at 5 to 5½ per cent. Acceptances are 4¼ to 4½ per cent. Call loans, 4½ to 5½ per cent. Federal reserve discount rates range from 4½ per cent on all classes of paper at the Boston, New York and Philadelphia banks to 5½ per cent at the Richmond, Atlanta, Minneapolis and Dallas banks.

### Gold Importations

Much comment is offered upon the importations of gold and the accumulations in the reserve banks. Some of the comments carry the idea that the reserve banks are reaching out for them and systematically withholding

them from use, but there is nothing in that. Gold comes to the country consigned to private parties, who deposit it in banks and the banks transfer it to the reserve banks to pay off their indebtedness there or to create balances against which they may borrow or draw currency. The reserve banks do not take the initiative in lending money, but they have been reducing their interest rates, which is the opposite from a policy of discouraging borrowers.

These growing gold reserves are unused simply because the public is still intent upon paying its old debts rather than upon making new ones. Confidence in the state of the world and in the prospects for business in this country has not yet revived to the point where it stimulates borrowing for new undertakings. The new gold reserves are simply dead assets.

Moreover, it should be added that these additions to the gold stock not only are not needed to carry on the business of this country, but would have a dangerous effect if made the basis of all the credit that might be based upon them. It must be borne in mind that this influx comes under extraordinary conditions and that a restoration of normal conditions abroad would involve a return of considerable amounts. The excess above our normal share of the world's supply would do this country more good if used in a helpful manner for placing Europe on its feet than by any purpose it will serve here.

No little speculation is indulged in as to the method by which this metallic stock may be used as the basis of credits to Europe. Probably the best way would be by lending the gold itself for the rehabilitation of their monetary systems, but that raises the question as to who will make the loans. Evidently the banks cannot invest deposits which they are under obligations to pay on demand in that manner. Such loans must be made by the depositors themselves, or, in other words, by the investing public.

## Foreign Currencies.

The currencies of Europe are nearing a stage at which it will be impossible to use them as media of exchange. There is no well-defined line at the crossing of which a currency becomes worthless, but evidently it cannot continue to depreciate without reaching in time the point where the public will refuse to give anything for it. It is amazing how long a people will makeshift with money that is on the verge of becoming worthless, simply from the force of custom and because they have no substitute.

In Russia, the old unit, the rouble, formerly worth about 51 cents, now has a value so small that the old denominations have long since passed entirely out of use. Even a thousand rouble note of the new issues will not buy anything. As the depreciation has progressed the denominations have risen, 10,000, 50,000 and 100,000 rouble notes becoming the common change in use.

The Polish mark, nominally worth 23.8 cents in money of the United States, is quoted at .03 of a cent; the Austrian crown, formerly 20 cents, is only slightly higher; the crown of Jugo-Slavia, which corresponds to the Austrian unit, is worth a little more, about .36 of a cent; the crown of Hungary, of the same crown family, is worth about one-tenth of a cent, and the lei of Rumania, formerly 19.3 cents is worth .76 of a cent. These currencies are very near extinction, and live on only because there is nothing to take their places. It is difficult to see how business can be carried on with them, and particularly how any agreements for future performance can be entered into in terms of them. Even very small fluctuations in the value of these infinitesimal units would have very great affect in the value of commodities. How can any credit be given in terms of money? All past indebtedness is practically wiped out, and while that for the moment may benefit debtors as much as it injures creditors, how dare anyone take a creditor position for the future?

### Currency Situation in Germany

Consider, for example, the situation in Germany, where six months ago the mark was worth 1½ cents, and even three months ago was worth more than a cent, against a present value of about 35 hundredths of a cent.

It is true that the mark has not declined as rapidly in purchasing power within Germany as in the foreign exchanges. The relationship between internal prices and foreign exchange is indirect, but it is close enough to cause a steady decline in the value of the currency for internal use, resulting in strikes and wage-advances constantly. The most effective influence for bringing the internal value of the mark into line with its value in the exchanges is the cost of food. Germany is obliged to import grain, meats, cotton, wool and other necessaries entering into common consumption, and these imports must be paid for at the current rates of exchange. Since trade in these commodities is now free, the portions imported fix the prices for the home-grown supplies, as well, and the depreciation of the mark is soon reflected in the cost of living.

The increase in the volume of mark currency and its depreciation have reacted upon each other in a vicious cycle. The amount of this currency now outstanding is about 95,-000,000,000 marks, which compares with

about 2,000,000,000 marks before the war, 35,000,000,000 marks at the close of 1919 and 68,000,000,000 at the close of 1920. The influence of this increase in the currency has been to depreciate its purchasing power, or in other words advance prices. The general advance of prices and cost of living increased the outlays of the government in operating the state railways and carrying on all its functions, and as revenues were not increased correspondingly, the Treasury deficit was increased, and met by printing more currency, the effect of which was further depreciation, and so on around again.

The final influence in bringing the mark currency to its present state has been the reparations payments. Although there has been a decided revival of German foreign trade, the exports of the country are now only about one-fourth of what they were in 1914, and the surplus of exports over imports has not been sufficient to meet the reparations payments. The German government has been compelled to resort both to shipments of gold from the Reichsbank reserves and to the purchase of foreign exchange, both actions tending to depreciate the currency.

Public opinion in Germany has been pessimistic since the Silesian decision, and there are so many parliamentary groups in the Reichstag that the cabinet is unstable and probably without assured power to make a definite foreign policy. In the face of a most critical situation the country appears to be drifting.

#### The Collapse of Paper Currencies

Included in the above-named countries is much the greater part of Europe, and it is important to know what effect further changes in their currencies will have upon their foreign trade and internal life. They apparently have not the resources within themselves to enable them to get out of the fatal cycle of currency inflation and currency depreciation. A government must continue to function and must pay its way with something. These governments do not seem to be able to increase revenues fast enough to catch up with the depreciation of their currencies and give them a chance to stop the printing presses. It must be recognized also that there is a tendency for revenues to fall off in all countries, owing to business depression. It is a question whether any government in Europe will pay its way out of revenues this year, and not altogether certain that the government of the United States will do it. The war raised the costs of government as well as all industrial costs, and disorganized the entire social and industrial system.

#### Social Demoralization

Moreover, the temper of the people is such as to make them less responsive to governmental policies and to governmental authority than in the past. There is lacking the old habit of obedience to requirements of the governments which involve self-denial and hardship. The situation calls for a high spirit of loyalty to the social organization, a willingness to accept hard conditions, and to cooperate in reorganizing industry, reducing government expenditures and submitting to increased taxation. The public, however, generally fails to comprehend the necessity for such measures, and finance ministers who attempt to adopt them fail to receive necessary support from the legislative bodies.

Modern, highly-organized industry has been developing to what it is over a long period of time. Money has been one of the chief features and agencies of its development, for specialized industry is impossible without money. The science of money is not a matter of common knowledge, although the subject is one upon which people are very ready to form offhand opinions. Unfortunately, the idea is prevalent that the organization of society has been shaped and dominated in the past by the so-called governing classes to their own advantage and the disadvantage of the masses, with the result that qualified leadership is to a great extent discredited.

#### Must Have a Medium of Exchange

It is impossible to conceive of a country without a currency of some kind, and until something better is provided it appears that, as the depreciated currencies sink lower and lower the countries will have to follow the example of Russia in abandoning the old denominations and printing larger ones, or the example of France in 1796, when the paper currency known as assignats having apparently reached the limits of depreciation, a new currency known as mandats was issued, one mandat to have the value of thirty assignats.

All such devices are only descending steps to repudiation, or temporary expedients, with or without plans for the future. The situation must grow worse, for it cannot be otherwise than that the steady depreciation of the currency will undermine the confidence of the public, and curtail the use of credit. Modern business is done largely by the use of credit and by means of contracts or agreements for the delivery of commodities or the performance of services, to be paid for in money at some date in the future. If there is no confidence in the future value of money, production and employment must be seriously interfered with and grave social conditions ensue. The population of Europe is too great

for the people to go back to the primitive conditions in which each family lives on the land and supplies its own wants by its own labor or barter with its neighbors.

### The Fundamentals of Currency

The fundamental requirements for currency reform in the European situation are that the currency shall be divorced from the fiscal needs of the governments and that paper money shall be redeemable in something that all the world esteems of real value. Apparently there is no way out for most of the countries referred to above but by cutting loose entirely from the old currencies which have become so vast in volume and so depreciated in value that they would sink any new monetary system that attempted to become responsible for them. Their fate will have to be left to the future. Once the governments are on their feet financially some plan for disposing of the old issues, by funding operations or otherwise, may be possible, but the new system should start free from every such incubus.

The committee of the League of Nations, in attempting to deal with Austria has planned a new central bank with note issues based upon a gold reserve, although nothing has been done about it yet, because certain claims upon the Austrian government by other governments must be postponed by consent to enable the Austrian government to provide a share of the capital.

Other plans for banking organizations on a gold basis have been proposed. Mr. Vanderlip has proposed one for a great international banking corporation which would have subsidiary national banks in the several countries.

These plans have the great merit of offering a currency not involved in the government finances, and not attached to the great mass of outstanding issues. It is assumed that the public everywhere would welcome an opportunity to do business in terms of gold, and that gradually business would be shifted to the new basis. It is believed that in all of these countries there are considerable amounts of gold in hiding that would come to the new institutions, and that outside capital would improve the opportunity to enter the countries and do business on a gold basis. The banks would be rallying posts for all interests desiring to co-operate in the introduction of sound money in those countries.

The difficulties attendant upon any such change are great, but somehow the change must be made. As for the danger that gold would be withdrawn from the new banks for export, obviously it would have to be the policy of the banks not to incur any obligations that were not offset by gold assets, either in hand or in the shape of foreign credits. This would seem to limit their business in the beginning to very small proportions, but there does not appear to be any other way that a new beginning can be made. The new institution must not be entangled in any discredited system.

### Vindication of the Gold Standard

The state of the currencies at the present time and the chaos of the exchanges should give to many people a better understanding of the services which the gold standard has rendered to the world in the past, and expose conclusively the futility of the schemes for a paper currency without provisions for redemption.

When the gold standard was in effect in all the principal countries the currencies of those countries were in practically fixed relations to each other. The inhabitants were doing business upon a common plane of values. They had a common language of prices. The price of wheat in Odessa, Buenos Aires, Sydney, Bombay, Budapest, Liverpool and Chicago was quoted practically in terms of a common measure, the grain of gold. For the vast majority of international transactions, exchange varied within the cost of shipping gold from one country to another, and never exceeded it by more than a very small margin. Contracts could be entered into for future dates with a certainty that, barring some very unusual disturbance, these exchange conditions could be relied upon.

There are always critics of the existing order of things and there were critics of the gold standard. It was said to give the bankers control over the volume of money, but while that was untrue, now that the volume of money has been free and uncontrolled for a few years most people would like to see some kind of control established. The gold standard did not give control to anybody, but it put some restrictions upon the operations of printing-presses. Under the gold standard, the profits of bankers in exchange operations were reduced to amazingly small percentages, but without the gold standard trading in foreign exchange is so hazardous that nobody can engage in it without large margins to cover the risks of the business.

The fallacy of all the arguments for irredeemable paper currency have been exposed again, as they have been time after time in the past.

These arguments are born anew to every generation, in the minds of men who think they are original ideas. This time they have been exposed, not in one country alone but in dozens of countries. The results have not been due to particular errors by one country's administrators, but are seen to be inherent in the system. The paper currencies of Europe have cost the people far more than all the direct

expenditures upon the war, and have involved them in a state of disorder and misery from which they do not see any way of escape.

## The French Assignats.

There never has been a situation before in which so many countries and so great a population were involved in a paper currency crisis as at the present time, but there have been numerous cases where single countries have suffered from the paper money delusion. One of the most conspicuous cases in history is that of the experience of the French revolutionary government in 1790-96. The government finances were in bad condition and general industrial and trade conditions were disturbed by the revolutión and the social changes which it inaugurated. It was said that business was stagnant for want of an ample circulating medium.

There was strong opposition due to previous experience with paper money, but it was finally over-ridden by a plan to issue 400,000 livres, based upon the lands that had been confiscated from the Church, with a provision that they should bear interest at 3 per cent. which was expected to retire any notes that might be redundant. They were called assignats, on account of the pledge of lands.

The first effect of this issue was stimulating, but, within four months, money was as "scarce" as before, and a demand sprang up for more. The dose was doubled by an issue of 800,000 more, accompanied by a pledge that this would be the last. In a short time, however, the same need for more was manifest, and by 1796, when the craze had run its course and all issues were swept out as worthless, the total amount of assignats outstanding was forty thousand millions. Near the end, twenty-five hundred millions of mandats were issued, but these also became worthless in a few months. Finally, the legal tender enactments for both assignats and mandats were simply repealed and they ceased to circulate. Gold and silver came back into use without any further action by the government, as they had been legal tender all of the time but driven from circulation by the irredeemable paper money.

#### Discussion by Dr. Andrew D. White

The most notable discussion of the assignats in the English language has been a paper prepared by Hon. Andrew D. White, for many years the distinguished President of Cornell University. He gave the paper to a close friend, John Mackay, of Canada, who printed it for private distribution, but unfortunately it has never been published for general sale. Much of the information it contains, however, is given in the book upon "Money," by Francis A. Walker, late President of the Massachusetts Institute of Technology.

We have taken a few extracts from Dr. White's story of the assignats, which although disconnected are sufficient to show that that experience with inflation developed the same symptoms with which the world is familiar today.

* * * No irredeemable currency has ever claimed a more scientific and practical guarantee for its goodness and for its proper action on public finances. On the one hand, it had what the world recognized as a most practical security,—a mortgage on productive real estate of vastly greater value than the issue. On the other hand, as the notes bore interest, there seemed cogent reason for their being withdrawn from circulation whenever they became redundant. * * *

* * * The first result of this issue was apparently all that the most sanguine could desire: the treasury was at once greatly relieved; a portion of the public debt was paid; creditors were encouraged; credit revived; ordinary expenses were met, and, a considerable part of this paper money having thus been passed from the government into the hands of the people, trade increased and all difficulties seemed to vanish. * * * But soon there came another result: times grew less easy; by the end of September, within five months after the issue of the four hundred millions in assignats, the government had spent them and was again in distress. The old remedy immediately and naturally recurred to the minds of men. Throughout the country began a cry for another issue of paper. * * *

* * * Prudhomme's newspaper poured contempt over gold as security for the currency, extolled real estate as the only true basis and was fervent in praise of the convertibility and self-adjusting features of the proposed scheme. In spite of all this plausibility and eloquence, a large minority stood firm to their earlier principles; but on the 29th of September, 1790, by a vote of 508 to 423, the deed was done; a bill was passed authorizing the issue of eight hundred millions of new **assignats,** but solemnly declaring that in no case should the entire amount put in circulation exceed twelve hundred millions. * * *

* * * Yet each of these issues, great or small, was but as a drop of cold water to a parched throat. Although there was already a rise in prices which showed that the amount needed for circulation had been exceeded, the cry for "more circulating medium" was continued. The pressure for new issues became stronger and stronger. * * * During the various stages of this debate there cropped up a doctrine old and ominous. * * * This was the doctrine that all currency, whether gold, paper, leather or any other material, derives its efficiency from the official stamp it bears, and that, this being the case, a government may relieve itself of its debts and make itself rich and prosperous simply by means of a printing press.

But for the moment, the French manufacturers derived great advantage from this state of things. As their products could be so cheaply paid for, orders poured in from foreign countries to such a degree that it was often difficult for the manufacturers to satisfy their customers. It is easy to see that prosperity of this kind must very soon find its limit. * * * When a further fall in the **assignats** took place this prosperity would necessarily collapse, and be succeeded by a crisis all the more destructive the more deeply men had engaged in speculation under the influence of the first favorable prospects. * * *

* * * Various bad signs began to appear. Immediately after each new issue came a marked depreciation; curious it is to note the general reluctance to assign the right reason. The decline in the purchasing power of paper money was in obedience to the simplest laws in economics, but France had now gone beyond her thoughtful statesmen and taken refuge in unwavering optimism, giving any explanation of the new difficulties rather than the right one. * * *

A very common explanation was indicated in Prudhomme's newspaper, "Les Revolutions de Paris" of January 17, 1791, which declared that coin "will keep rising until the people shall have hanged a broker." * * *

Still another troublesome fact began now to appear. Though paper money had increased in amount, prosperity had steadily diminished. In spite of all the paper issues, commercial activity grew more and more spasmodic. Enterprise was chilled and business became more and more stagnant. * * *

Thus came a collapse in manufacturing and commerce, just as it had come previously in France; just as it came at various periods in Austria, Russia, America, and in all countries where men have tried to build up prosperity on irredeemable paper. * * * There had come a complete uncertainty as to the future. Long before the close of 1791 no one knew whether a piece of paper money representing a hundred livres would, a month later, have a purchasing power of ninety or eighty or sixty livres. The result was that capitalists feared to embark their means in business. Enterprise received a mortal blow. Demand for labor was still further diminished; and here came a new cause of calamity: for this uncertainty withered all far-reaching undertakings. The business of France dwindled into a mere living from hand to mouth.

* * * The consequences of these over-issues now began to be more painfully evident to the people at large. Articles of common consumption became enormously dear and prices were constantly rising. Orators in the Legislative Assembly, clubs, local meetings and elsewhere now endeavored to enlighten people by assigning every reason for this depreciation save the true one. They declaimed against the corruption of the ministry, the want of patriotism among the Moderates, the intrigues of the emigrant nobles, the hard-heartedness of the rich, the monopolizing spirit of the merchants, the perversity of the shopkeepers, —each and all of these as causes of the difficulty.

* * * To spread terror, the Criminal Tribunal at Strassburg was ordered to destroy the dwelling of anyone found guilty of selling goods above the price set by law. The farmer often found that he could not raise his products at anything like the price required by the new law, and when he tried to hold back his crops or cattle, alleging that he could not afford to sell them at the prices fixed by law, they were frequently taken from him by force and he was fortunate if paid even in the depreciated fiat money,—fortunate, indeed, if he finally escaped with his life.

* * * It will doubtless surprise many to learn that, in spite of these evident results of too much currency, the old cry of a "scarcity of circulating medium" was not stilled; it appeared not long after each issue, no matter how large.

Interesting is it to note in the midst of all this the steady action of another simple law in finance. Prisons, guillotines, enactments inflicting twenty years imprisonment in chains upon persons twice convicted of buying or selling paper money at less than its nominal value, and death upon investors in foreign securities, were powerless.

But on the 18th of February, 1796, at nine o'clock in the morning, in the presence of a great crowd, the machinery, plates and paper for printing **assignats** were brought to the Place Vendome and there, on the spot where the Napoleon Column now stands, these were solemnly broken and burned.

* * * And finally, as to the general development of the theory and practice which all this history records; my subject has been Fiat Money in France; How it came; What it brought; and How it ended.

It came by seeking a remedy for a comparatively small evil in an evil infinitely more dangerous. To cure a disease temporary in its character, a corrosive poison was administered, which ate out the vitals of French prosperity.

It progressed according to a law in social physics which we may call the **"law of accelerating issue and depreciation."** It was comparatively easy to refrain from the first issue: it was exceedingly difficult to refrain from the third and those following was practically impossible.

It brought, as we have seen, commerce and manufactures, the mercantile interest, the agricultural interest, to ruin. It brought on these the same destruction which would come to a Hollander opening the dykes of the sea to irrigate his garden in a dry summer. It ended in the complete financial, moral and political prostration of France—a prostration from which only a Napoleon could raise it.

## Inflation in the United States.

The state of the currency which now exists in a large part of Europe, and the story of the assignats throw light upon our bank credit inflation in the United States, for inflation is practically the same in essence and effects whether it comes through paper currency or credit that passes by means of bank checks. In either case the mischief is done by the increase of circulating credit without relation to the production of commodities entering into trade.

Inflation had its start in the United States during the war, when great amounts of bank credit were brought into use for the flotation of government loans and in response to the demands of business which was over-stimulated. After the war, following five months of slackening demands, business was again over-stimulated. The demand for commodities appeared to exceed the supply, prices rose, more credit was wanted from the banks, and the latter at first thinking it necessary to support the revival of the peace industries responded. It soon developed, however, that the increase of bank loans was financing a competitive struggle for labor and goods and forcing both wages and prices higher, in the same manner that issues of paper money would operate.

In other words, the increasing amount of purchasing power put into effect by bank loans was depreciating the value of all money, including gold itself. Under ordinary conditions, with the rest of the world on the gold basis, as before the war, such an increase of bank loans in the United States accompanied by rising prices, would have turned the trade balance against this country, caused exports of gold, and by the loss of bank reserves compelled a restriction of lending, but with the trade balance heavily in our favor this steadying influence was not in effect.

### The Stand Against Inflation

By the fall of 1919 the United States was in the grip of a cycle of rising prices and wages which began to alarm careful observers. The railroad brotherhoods gave notice in August of their intention to strike unless wages were raised to compensate for the advancing cost of living. The movement for higher wages was general and it was apparent that the higher wages when granted would again increase the cost of living, and that there would be no stopping place if the influence of inflation was given free play.

The country at that time was at the parting of the ways. The reserves of the Federal Reserve banks were down practically to the limit set by the Federal Reserve act—a limit fixed with careful and unbiased judgment when the act was passed before the war. The Federal Reserve act provides that the reserve requirements may be suspended for a period of thirty days and that such suspension may be renewed for periods not exceeding fifteen days, but these are clearly emergency provisions. Moreover, the law provides that a graduated tax shall be levied upon the amount by which these reserves fall below the regular limit, and also that the rate of the tax shall be added to the regular discount rates while the deficiency continues. These provisions clearly show the purpose and spirit of the law.

The banking situation had practically reached the position where the law required these provisions to become effective, and all signs indicated that unless inflation was checked they must become automatically effective very shortly.

#### Criticism of the Reserve System

These were the existing conditions when the Federal Reserve authorities in November, 1919, after several public warnings, caused the first advance of discount rates to be made with a view to checking inflation. The movement was a very cautious one, and it was not until May, 1920, that any of the discount rates reached 7 per cent.

It has been charged that the Federal Reserve authorities and other bankers set out deliberately to deflate prices, but this is a misrepresentation. They set out to check the alarming increase of bank loans and to hold the volume of reserve bank liabilities within the limit fixed by the law. It should be apparent to everybody that they did not take action an hour too soon. If they had not acted when they did the mandatory provisions of the law would have compelled action at an early day, and under the law the tax of not less than one per cent per annum would have been added to the regular discount rates. That would have been more drastic than the policy actually pursued by the Reserve Board.

Moreover, it should be said that while the reserve requirements might have been modified by act of Congress, to permit the increase of loans to go on, such action would have opened the way to precisely the course of inflation, currency depreciation and general demoralization which has taken place in Europe, and which is described by Andrew D. White in the case of the assignats. There was no better place to stop the tide of inflation than at the point fixed in the law, unless indeed, it might have been stopped earlier.

#### Effect of Restriction Upon Prices

The increase of discount rates did not accomplish an immediate cessation of the growth of loans. The highest point for loans both in the member banks and Federal Reserve banks was reached in the fall of 1920. The affect of this advance of rates upon prices is not clear, for our decline of prices began in many lines by the Spring of 1920. Undoubtedly money had been growing tighter. As the member banks used up their own lending capacity and faced the necessity of rediscounting if they granted further loans, they would naturally become more conservative, as they should be. There was, however, no general decline of loans until after prices had begun to decline.

A decline of loans after prices began to fall was inevitable. In the first place, falling prices have the effect of diminishing deposits, and it is the volume of deposits upon which the banks mainly rely for ability to make loans. Shrinking deposits compelled the banks to reduce their loans to obtain the means of meeting their own obligations.

It has been said that the Federal Reserve system was established for the purpose of meeting an emergency of that kind, but this is confusing an emergency in the affairs of a single bank or a limited number of banks with a general movement throughout the system. The Federal Reserve banks depend for their own resources chiefly upon the deposits kept with them by the member banks. They could not on the strength of their own capital undertake to carry the entire banking system of the country. As the member banks lost deposits the reserve banks also lost deposits.

It is not pleasant for borrowers to be obliged to pay off loans in hard times, but that is one of the possibilities that borrowers should take into consideration. If they borrow funds which the banks hold temporarily, they must expect to return them if the banks are obliged to return them.

Another reason why loans decline in a time of falling prices is that the responsibility of borrowers is affected. Falling prices diminish the resources of borrowers, and it is well understood that if the collateral or individual responsibility behind a loan changes unfavorably, it is proper to ask for more security or a reduction of the loan. The people who borrow of banks usually do so in the expectation of using the money profitably. If they succeed the profit is all their own; the bank does not share in it. The banker has an obligation to the public to conduct his business on a safe basis, in order that he may meet his own engagements.

**Agricultural Territory Aided**

The prevailing opinion in many parts of the country has been that the agricultural districts have been discriminated against, or failed to receive the amount of aid they were entitled to, but the record shows this not to be the case.

An analysis of reports from about 9,500 member banks throughout the country, has been made by the Federal Reserve Board, and the banks classified as located in agricultural, semi-agricultural and non-agricultural territory, according to the relative importance of agriculture to other industries. The resulting summary shows that between May 4, 1920, and April 28, 1921, the loans and discounts of banks in agricultural counties throughout the country declined $36,500,000, or slightly more than 1.2 per cent; the loans and discounts of banks in semi-agricultural counties declined $18,700,000, or 1.3 per cent; and the loans and discounts of banks in non-agricultural counties declined $827,100,000, or 5.6 per cent. The borrowings from the Federal reserve banks by banks in agricultural counties increased $127,600,000, or 56.6 per cent; borrowings by banks in semi-agricultural counties remained practically stationary; and borrowings by banks in non-agricultural counties declined $629,100,000, or 28.5 per cent.

## The New Tax Bill.

The new revenue bill is not very highly praised by its sponsors, being a compromise in which nobody secured enough of what he wanted to make him satisfied. Those who proposed the immediate repeal of the tax upon business profits are disappointed, and so are those who wished to reduce the income surtaxes to 32 per cent. On the other hand those who opposed any reductions in these taxes and wished to increase the estate taxes, were disappointed.

The new bill will produce less revenue than the old one, as expenditures are lessening, but it makes little change in the policy of very heavy levies upon large incomes. The idea of putting the taxes upon the rich does not diminish in popularity. Of course no one would argue that the rich should not pay according to their wealth, or even against moderately progressive rates, but prevalent opinion plainly does not take into account all of the consequences of taking so large a proportion of the incomes of men who are accustomed to provide capital for industry. There is in general slight appreciation of the fact that large incomes for the most part are turned back into industrial development, enabling men of unusual business ability and enterprise to carry forward the plans which their active brains are always devising, and which promote the general prosperity. At the very time when this measure of unrelenting severity becomes a law, Henry Ford is demonstrating the value of wealth to the common welfare by his proposal to utilize the Muscle Shoals power plant and put a million men at work there. His proposal differs only in degree from what all men of large incomes are trying one way or another to do.

There will be no scientific system of taxation until the people realize the public value of capital accumulations. Depreciation in industry is an enormous item in the country's annual bill for replacements and renewals, to say nothing of the need for the extention of old enterprises and the inauguration of new ones. It is necessary that there shall be a large fund of constantly accumulating capital, or the industrial machine will gradually wear out and run down.

There is grave reason to fear that the worst of the difficulties of government finance has not yet been seen. That is threatened by the soldiers' bonus bill which looms up ominously. The country is in no condition to meet this enormous expense, either by taxation or loans. By any method that may be adopted, the raising of the sum required will draw heavily upon the resources of the country when they are already strained apparently to the limit.

## The ter Meulen Plan.

Sir Drummond Fraser, member for Great Britain, of the International Commission appointed by the League of Nations to inaugurate the ter Meulen plan of international credits, was the guest of the American Bankers' Association at its annual convention at Los Angeles in October, and made an address setting forth the plan. He did not offer it as a panacea for all the ills of Europe, but as affording the best plan yet devised for mobilizing the available credit resources of the would-be borrowing countries, and this view is generally accepted by those who heard him.

The Plan contemplates that parties desiring to import goods from another country, and particularly where a time credit is desired, shall lay before the International Commission whatever security they desire to offer and that this security shall be examined by the Commission and a value in gold fixed upon it. This having been done, the government of the importing country will issue its own bonds, in terms of the money of the exporting country and loan them to the importer to be offered as collateral for the purchase money obligations. This proceeding produces a combination of private and government credit, with the entire transaction supervised by the International Commission. In case of default,

the pledged security is to be in the custody of the Commission. The government bonds are differentiated from other government issues in that they are backed by specific security, supplied by private parties. The loan of government bonds is intended to secure the cooperation of the importer's government in the collection of the debt, and to supply an additional guaranty. It is true, of course, that the ter Meulen Plan does not solve the very difficult exchange situation, which at this time is the chief obstacle to trade. It does not attempt to deal with this except as by making provision for the best obtainable class of time credits it may make possible a considerable amount of trade without the necessity for immediate settlements.

Sir Drummond Fraser's address was very well received by the convention, which adopted the following resolution:

"Believing that the restoration of normal conditions in the world and in our own country depends upon the re-establishment of a proper balance between nations, and that the cooperation therein of the United States is desirable and necessary for the re-establishment of normal conditions in American business life, we approve the principles of the plan for an International Credit Organization, known as the ter Meulen Plan. This plan offers a means of mobilizing the assets of the war stricken countries under responsible international supervision, and of issuing bonds based on these assets, thereby enabling them to secure long term credits for the payment of essential imports. The Commerce and Marine Commission of the Association is hereby directed to make the necessary investigations for the purpose of recommending the best means of cooperation on the part of this Association in carrying out the principle of the ter Meulen Plan."

## The Bond Market.

The past month has witnessed the most active demand for bonds since last Fall and prices have shown wide advances in practically every class of security. On the Stock Exchange for the week ending November 5th, total sales aggregated $95,818,000, of which $49,000,000 were United States Government Bonds. This compares with $69,825,000 for the preceding week and $61,721,000 for the week ending November 12th in which there were two Stock Exchange holidays. The main cause of the advance in United States Government Bonds was the reduction in the rediscount rates of Federal Reserve banks and the successful sale of the 4¼ per cent and 4½ per cent Certificates of Indebtedness. An indication of the rapid advance in the Government issues is shown in the following quotations:

| Issue | Low since Jan. 1, 1921 | Recent High | Advance |
|---|---|---|---|
| First Liberty 3½% Bonds.. | 86 | 95.40 | 9.40 |
| Second Liberty Conv. 4¼% Bonds | 85.30 | 94.90 | 9.60 |
| Third Liberty 4¼% Bonds.... | 88 | 96.92 | 8.92 |
| Fourth Liberty 4¼% Bonds | 85.34 | 95.20 | 9.86 |
| Victory 4¾% Notes | 95.56 | 99.92 | 4.36 |
| Victory 3¾% Notes | 95.80 | 99.86 | 4.06 |

#### Municipals and Foreign Governments

Municipalities are continuing their financing and each week brings to the market a substantial amount of new issues. Rates, however, are declining and this is evidenced by the performance of some recent issues. A short time ago an issue of state bonds was offered on a 5.20 per cent basis for serial maturities. The last $2,000,000 of the block were purchased by a group which re-offered them on a 5 per cent basis and the present market on these same bonds is a 4.80 per cent basis. On a thirty-year maturity this is an advance of six points and is indicative of the general municipal situation. Some of the larger cities of New York State are contemplating offering during the next few weeks 4½ per cent coupons and while this is a little in advance of quotations today it would not be surprising to see these bonds sell at or above par.

The high-rate foreign government issues have been in excellent demand, several of the issues selling well above the callable prices of the next few years. Some of the more noteworthy advances from the low prices of this year are:

| | |
|---|---|
| Belgium | 8s—96¾-105 |
| Bergen | 8s—93¼-105 |
| Berne | 8s—92⅞-107 |
| Chile | 8s—92 -102 |
| Copenhagen | 5½s—72 - 86 |
| Danish Municipal | 8s—85½-106½ |
| Sweden | 6s—81¾- 96½ |
| Zurich | 8s—94 -106 |

There have been a few new issues of foreign government 8s which have been rapidly absorbed and prices have materially advanced.

#### Railroad Issues

Railroad issues have enjoyed a similar enhancement in value and an excellent indication of the market are the Chicago, Burlington & Quincy Joint 6½s which were originally offered at 96½, the present quotation being 106½-107. It will be recalled that the first block of equipments which the Railroad Administration sold to New York bankers was offered on a 5⅞ per cent basis. A little later the market weakened and the equipments were traded on a 6 per cent basis. Last week a block of $2,000,000 of the short equipments were offered by a New York group at prices ranging from 5.65 per cent to 5.75 per cent basis. It is understood that the Railroad Administration has sold a total of about $109,000,000 of their original holdings of $310,000,000.

#### Public Utilities

Public utility bonds have been in strong demand and the advance is perhaps more marked than in other classes of securities. For a few months back the general public was very apathetic to public utility issues as a

whole and many of the older outstanding issues were quoted considerably below their intrinsic value. Recent issues of public utilities, however, indicate an entire change of sentiment with the result that the large issues which have been offered during the past few months are selling at a substantial premium and the entire public utility market has broadened to a point where the older 5 per cent issues are now regaining their former popularity. The most striking example of the demand for public utilities is evidenced in the oversubscription of the $50,000,000 New York Telephone Twenty-year 6 per cent Bonds which were originally offered at 97 and before the books were closed were quoted on the Curb at 98½, the market on the day of allotment being 100½. The syndicate managers received 67,912 subscriptions, totaling $488,000,000 and it was necessary to resort to $100 denominations in the final allotment, orders for $2,500 or less receiving 20 per cent with a minimum of $100 and subscribers for $75,000 or more received 5 per cent with a minimum of $7,500.

It is an especially noteworthy fact that of the 67,912 subscriptions to these bonds over 54,000 were for $5,000 or less, and over 25,000 were for $1,000 or less. Here is the capitalist class that is financing industry today.

### The General Market

Bankers have been predicting for some time past the end of the 7 per cent and 8 per cent bonds but the amount of financing to be done continued in such volume that the market could not absorb the new securities with enough promptness to insure higher prices. During the past few months there has been a scarcity of new issues with the result that the demand from investors, institutions and corporations has taken the floating supply of bonds out of the market and higher prices have inevitably followed. There is another important development in the investment situation and that is the growth in the number of bond distributors throughout the United States. At the recent New Orleans Convention of the Investment Bankers Association there were over seven hundred and fifty investment dealers registered from practically every city in the United States. This means that every nook and corner of our entire country is thoroughly canvassed through the agencies of the large national houses and the local dealers and the new issues are split up into very small parts in the hands of a great many individuals.

The advance of the past few weeks should, therefore, not be a surprise to the investing public for it has been anticipated for several months past and there is every indication that prices have moved to a higher level and will continue there for some time to come. In this connection it is interesting to note that a comparison of the average prices of fifteen representative railroad, public utility and industrial issues since 1906 shows that the average low prices of these issues in 1907 was 2½ points higher than the present high prices, while the average low for the rails in 1907 was 5 points higher than present high prices for the same issues. The low for public utilities in 1906 was 2 points higher than the high prices of today. The recent advances, therefore, have not yet carried the standard issues above the low prices of the past fifteen years and these indicators would seem to answer most conclusively in the negative the question so often asked today—"Are bond prices advancing too rapidly?"

The combined average of forty rails, public utilities and industrials as reported by the Wall Street Journal November 18th is 81.80 compared with 78.79 for October 18, 1921, and 76.90 for November 18, 1920.

## Guaranty of Bank Deposits.

The State of Oklahoma has had the questionable distinction of having inaugurated the system of establishing a guaranty for bank deposits by means of a fund provided by a tax on deposits. The theory is that of insurance, but it has certain fundamental weaknesses which are more serious in their effects upon banking than in their relation to most other kinds of business to which insurance is applied. Insurance is sound as a protection against unavoidable hazards, but dangerous whenever it tends to increase the hazards. The insurance or guaranty of bank deposits tends to increase the hazards by eliminating the value of character as a banker's asset. It tends to make all banks look alike to the public, and puts the careful, conservative banker, who is unwilling to make large promises and take large chances, at a disadvantage.

The theory is at fault in placing more emphasis upon the payment of depositors after a bank has failed than upon preventing failure. Its weakness always develops in a crisis, and reports from Oklahoma show that the system is in a bad way at the present time. Under the law the levy for the guaranty fund cannot exceed one-fifth of one per cent upon the deposits held by all banks in the system. When the fund is exhausted the guaranty commission issues warrants drawing 6 per cent interest, as a means of making further payments. The outstanding warrants now amount to about $2,250,000, and the interest upon them will absorb nearly the full annual assessment, having little or nothing for their redemption. Moreover, many of the larger banks are retiring from the system by taking out national charters.

## World Paper Currency and Gold Reserve, 1914 to 1921

*By O. P. Austin*
*Statistician, The National City Bank of New York*

The world flood of paper currency shows signs of abatement. While it is true that the third peace year has witnessed extremely large additions to the paper currency of a limited number of countries and that the face value of world paper as a whole is thus much greater than in 1920, it is also true that a large proportion of the countries of the world have made no increases in their paper currency in the last year and that in at least a dozen principal countries a reduction in the amount outstanding is apparent as compared with conditions one year ago. To what extent the reduction in prices and the slowing down of business activities, with the consequent reduction in demand for currency are responsible for this check in world inflation can scarcely be determined, but it is at least true that the paper currency of a dozen leading countries stands at a smaller total today than a year ago. And in most of those countries the gold reserves shows a greater or less increase in the same period. This "honor roll" of the countries which have actually decreased their paper currency in the third peace year includes the United States, Great Britain, France, Italy, Switzerland, Netherlands, the Scandinavian nations, Egypt and Canada, their total of paper currency having been reduced about $2,000,000,000 at its face value in the last twelve months, while their total gold reserve has increased about $1,000,000,000 in the same period.

Whether this increase in the gold reserve in the countries which have reduced their outstanding paper currency is due in any considerable degree to the disposition of gold to emerge from its "hiding" during the war, cannot be determined, but it is a fact that the aggregate gold reserve of the 36 principal countries of the world for which figures are presented in the accompanying tabulation shows in 1921 an increase of about 20 per cent over the 1919 aggregate for the same countries, and 12 per cent above the 1920 total.

While, as above indicated, many of the countries of the world have shown a disposition in the last year to reduce their paper currency, the large increases occurring in a few countries where conditions are still distinctly abnormal, notably, Poland, Germany, Austria, Hungary and Rumania, have more than offset the reduction which has occurred in the dozen other countries already enumerated, and the face or par value of the outstanding paper currency of the world now stands at $123,000,000,000 as against $82,000,000,000 in 1920, $55,000,000,000 in 1919, $40,000,000,000 in 1918, and $7,500,000,000 in 1914. And while the quantity of gold reserve visible in 1921 is 8¼ billion dollars as against 7¼ billions in 1920, the ratio of total gold to total paper is, in 1921, lower than at any earlier year, standing in the aggregate of the 36 countries named at 7 per cent of gold to paper against 15 per cent in 1919, 18 per cent at the close of the war, and 63 per cent at its beginning. In the tabulation which follows all currencies have been reduced to U. S. dollars at their par or normal values.

### CURRENCY NOTES AND GOLD RESERVE IN 36 PRINCIPAL COUNTRIES OF THE WORLD IN 1914, 1918, 1919, and 1921

(In Millions of Dollars U. S. Currency.)

| | 1914 | | 1918 | | 1919 | | 1921 | |
|---|---|---|---|---|---|---|---|---|
| | Gold | Notes | Gold | Notes | Gold | Notes | Gold | Notes |
| Argentina .. | $235 | $428 | $379 | $494 | $394 | $513 | $453 | $578 |
| Australia ... | 29 | 48 | 85 | 255 | 86 | 260 | a 112 | a 277 |
| Austria<br>Hungary b | 254 | 464 | 53 | 7,200 | 52 | 10,099 | 1<br>1 | 19,100<br>4,500 |
| Belgium ... | 53 | 180 | ... | ..... | 51 | 009 | 52 | 1,180 |
| Brazil ...... | c 125 | 175 | 38 | 560 | 44 | 582 | 24 | a 554 |
| Bulgaria .... | 27 | 32 | 12 | 342 | 9 | 476 | 7 | 615 |
| Canada .... | 155 | 210 | 201 | 468 | 203 | 534 | 190 | 447 |
| Chile ...... | i | i | 18 | 42 | 37 | 75 | 42 | 60 |
| Colombia ... | i | i | 9 | ..... | 5 | 10 | 25 | 16 |
| Czo-Slovakia | ... | ... | ... | ..... | i | a2,090 | 280 | 2,260 |
| Denmark .. | 20 | 42 | 51 | 115 | 52 | 130 | 61 | 129 |
| Ecuador .... | 5 | 2 | 4 | 6 | 5 | 10 | e 5 | e 10 |
| Egypt ...... | 8 | 13 | 16 | 198 | 17 | 301 | 16 | 150 |
| Finland ... | 7 | 24 | 8 | 213 | 8 | 205 | 8 | 272 |
| France f... | 806 | 1,301 | 665 | 5,951 | 710 | 7,286 | 690 | 7,100 |
| Germany g.. | 298 | 692 | 621 | 4,127 | 266 | 7,561 | 260 | 24,300 |
| Greece c ... | 47 | 39 | 277 | 221 | 347 | 260 | 268 | 302 |
| Italy h .... | 167 | 521 | 156 | 2,721 | 157 | 3,628 | 161 | 4,110 |
| Japan ..... | 106 | 159 | 330 | 401 | 389 | 532 | 540 | 511 |
| Jugo-Slavia... | ... | ... | ... | ..... | ... | ..... | 15 | 880 |
| Netherlands.. | 66 | 120 | 282 | 439 | 256 | 420 | 241 | 408 |
| Mexico .... | i | 335 | 56 | i | 63 | i | 87 | i |
| New Zealand | 30 | 10 | 40 | 30 | 39 | 36 | 40 | 39 |
| Norway .... | 14 | 33 | 33 | 110 | 40 | 115 | 39 | 101 |
| Peru ...... | 20 | i | 28 | 34 | 32 | 25 | a 30 | a 34 |
| Poland .... | ... | ... | ... | ..... | 2 | 1,620 | 5 | 36,414 |
| Portugal ... | 6 | 83 | 9 | 265 | 10 | 400 | 9 | 667 |
| Rumania ... | 43 | 147 | d 34 | 457 | 35 | 721 | 81 | 2,384 |
| Russia j.... | 777 | 795 | 628 | 8,936 | i | 8,936 | i | 8,936 |
| Spain ..... | 106 | 378 | 434 | 627 | 471 | 749 | 487 | 837 |
| Sweden .... | 28 | 60 | 75 | 211 | 81 | 194 | 75 | 106 |
| Switzerland. | 35 | 52 | 74 | 185 | 92 | 183 | 104 | 180 |
| U. Kingdom | 195 | 140 | 521 | 2,049 | 594 | 2,132 | 764 | 2,116 |
| U. States.. | 1,023 | 1,056 | 2,199 | 3,643 | 2,107 | 4,051 | 2,944 | 3,637 |
| Uruguay ... | 15 | 8 | 42 | 44 | 51 | 55 | 57 | 56 |
| Total of 36 countries named .... | 4,682 | 7,553 | 7,380 | 40,350 | 6,759 | 55,104 | 8,181 | 123,445 |
| Ratio of gold to notes .. | | 63.3 | | 18.4 | | 14.7 | | 6.7 |

a 1920; b Figures of Austro-Hungarian Bank prior to 1920; figures for 1921 represent the Austrian Bank and the Hungarian Bank respectively, organized in 1920; c Includes holdings abroad not separately stated; d Exclusive of gold holdings abroad; e 1919; f 1914 includes gold held abroad; in subsequent years exclusive of gold held abroad; g Includes Darlehnskassenschein notes; h Includes bank and state issues; i No data; j No official data on Russian currency subsequent to October 1917. Bolshevik currency is stated in Associated Press dispatches from Moscow on October 30, 1921, at 5,750,000,000,000 rubles.

# Economic Conditions, Governmental Finance, U. S. Securities

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